# 31 December 2019 Consolidated Financial Statements TeamSystem Group

TeamSystem

# CONTENTS

# TEAMSYSTEM HOLDING S.p.A.
# CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31.12.2019

# DIRECTORS' REPORT

# TeamSystem Holding S.p.A.

## DIRECTORS' REPORT ON OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2019

Dear Sole Shareholder,

Presented below are the results for the year ended 31 December 2019 of TeamSystem Holding S.p.A. and its subsidiaries (“TeamSystem Group” or “Group”) together with comments on the operations thereof.
This directors' report accompanies the disclosures pertaining to TeamSystem Holding S.p.A.'s consolidated financial statements and illustrates the main features of TeamSystem Group's financial position at 31 December 2019 and its results for the year then ended.

All monetary amounts in this report are expressed in Euro thousands unless otherwise indicated.

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# CORPORATE BODIES AND OTHER CORPORATE INFORMATION

| BOARD OF DIRECTORS<br>31 Dec 2019 | |
|---|---|
| VINCENZO MORELLI | CHAIRMAN |
| FEDERICO LEPROUX | CHIEF EXECUTIVE OFFICER |
| PATRICK JOHN HEALY | DIRECTOR |
| VINCENZO FERRARI | DIRECTOR |
| TOMMASO COHEN (**) | DIRECTOR |
| BLAKE CHRISTOPHER KLEINMAN | DIRECTOR |
| GUILLAUME VANMOERBEKE (*) | DIRECTOR |
| LUCA VELUSSI | DIRECTOR |
| JEAN BAPTISTE BRIAN | DIRECTOR |

( * ) = Member of the Board since 3 December 2019 in substitution of Philip Sternheimer
( ** ) = Member of the Board since 29 March 2019 in substitution of Sergio Amodeo

| BOARD OF STATUTORY AUDITORS<br>31 Dec 2019 | |
|---|---|
| CLAUDIO SANCHIONI | CHAIRMAN |
| FABIO LANDUZZI | STATUTORY AUDITOR |
| NICOLE MAGNIFICO | STATUTORY AUDITOR |
| MARCO CECILIONI | ALTERNATE AUDITOR |
| CRISTINA AMADORI | ALTERNATE AUDITOR |

| REGISTERED OFFICE and OTHER INFORMATION | | |
|---|---|---|
| TEAMSYSTEM HOLDING S.P.A. | | |
| REGISTERED OFFICE | Via Sandro Pertini 88, Pesaro | |
| SHARE CAPITAL | Euro | 5,450,000 |
| TAX CODE | | 09290340968 |
| PESARO CHAMBER OF COMMERCE REGISTRATION NO. | | 196739 |
| INDEPENDENT AUDITORS | | DELOITTE & TOUCHE S.p.A. |

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## GROUP OPERATIONS AND RESULTS FOR THE YEAR

### ►MACROECONOMIC, SECTOR AND LEGISLATIVE CONTEXT

**Italian macroeconomic context**
In 2019 the gross domestic product ("GDP") of the Italian economy was 0.2% in real terms, a slowdown compared to 2018 when GDP rose by 0.8%.

In a scenario of a gradual slowdown in economic activity, in the fourth quarter of 2019, Italian GDP recorded a downturn of 0.3%, which interrupted the weak positive trend that prevailed over the previous four quarters (source: Istat).

At 31 December 2019, the Italian economy's unemployment rate was 9.8%, down on the corresponding figure at 31 December 2018 by 0.4% (source: Istat). Compared to the figure at 31 December 2018, the growth in employment (+0.6%) extended to women, men and all age categories, with the exception of 35-49 year olds, for whom the downturn was attributable to their decreasing demographic weighting. There was an increase in the number of employees, whereas the number of self-employed fell by 71 thousand (source: Istat).

**ICT segment context**
According to figures released by Assintel (National association of ITC companies), it is estimated that the Italian ICT market reached a value in excess of approximately € 31 billion in 2019, having grown by +2.3% compared to 2018, resulting in projected expenditure of just shy of € 31.5 billion in 2020, with growth of 0.9% compared to 2019. The market has been forecast to grow in the period 2018-2022, with a compound annual growth rate (CAGR) of 1.6%, with corporate ICT expenditure expected to exceed € 32.4 billion in 2022.

A more detailed analysis of the two main components of the Italian ICT market, namely **IT and Telecommunications**, shows the consolidation of a trend characterised by different, contrasting dynamics. In fact, on one hand, there has continued to be a fall in corporate expenditure on mobile and fixed network **Telecommunications Services** (source: Assintel).

This has been offset by the **Information Technology (IT)** market, which in 2019 accounted for total expenditure in excess of € 24.2 billion, up by 3.8% on the 2018 figure. In 2020, with growth of 1.9% compared to 2019, this market is expected to be worth € 24.7 billion, thanks, above all, to its software component (expected to be € 7.3 billion in 2020, +6.3% compared to 2019). This trend is also expected to consolidate itself in subsequent years, with expected overall growth in IT expenditure for the period 2018-2022 of 2.6%, which will take the value of the market to just under € 26 billion in 2022 (source: Assintel).

In recent weeks, with the increase in infections due to the COVID-19 effect, volatility and consequently the prospects for a slowdown in the world economy have increased significantly. The restriction of the movement of goods and people and the adoption of restrictive measures have led to a drastic reduction in production and demand for consumption in China. The impact on the rest of the world, albeit for the time being less severe, entails a reduction in the generalized confidence indicators. These circumstances, extraordinary in nature and extent, have direct and indirect repercussions on economic activity and have created a context of general uncertainty, the evolution of which and the related effects are not currently foreseeable to date but which are and will still be monitored with extreme attention by the Directors.

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## ►SIGNIFICANT EVENTS THAT OCCURRED DURING THE YEAR

### ■MERGERS BY ABSORPTION - SIMPLIFICATION OF GROUP STRUCTURE

With the aim of simplifying and rationalising its organisational and corporate structure, TeamSystem Group completed a series of corporate mergers in 2019, as set out below:

**a)** in March 2019, Metodo S.r.l. was merged by absorption into TeamSystem S.p.A., with the effective date for accounting and tax purposes backdated to 1 January 2019;

**b)** in December 2019, Esa Napoli S.r.l. and Inforyou S.r.l. were merged by absorption into TeamSystem S.p.A., with the effective dates for accounting and tax purposes backdated to 1 January 2019;

**c)** in February 2019, Nuovamacut Centro Sud S.r.l. and Nuovamacut Nord Ovest S.r.l. were merged by absorption into Nuovamacut Automazione S.p.A., with the effective dates for accounting and tax purposes backdated to 1 January 2019;

### ■ACQUISITIONS OF NEW COMPANIES – INCORPORATION OF NEW COMPANIES

During the course of 2019, TeamSystem Group acquired/incorporated the following companies or acquired further equity interests in existing subsidiaries:

**● INCORPORATION OF NEW SUBSIDIARIES**

**a)Incorporation of TeamSystem Financial Value Chain S.r.l., TeamSystem AM Holdco S.r.l. and TeamSystem Capital at Work SGR S.p.A.**

At the end of February 2019, TeamSystem S.p.A. set up a subsidiary company called TeamSystem Financial Value Chain S.r.l. in which it has retained a controlling interest of 51% (put and call option agreements have been entered into with respect to the remaining 49% interest). TeamSystem Financial Value Chain S.r.l. will become TeamSystem Group's centre of excellence for financial services, a new sector that the Group has targeted for future development.

In May 2019, TeamSystem Financial Value Chain S.r.l. set up a subsidiary company called TeamSystem AM Holdco S.r.l., in which it holds an interest of 51% (put and call option agreements have been entered into with respect to the remaining 49% interest). Then, in September 2019, TeamSystem AM Holdco S.r.l. set up a subsidiary company called TeamSystem Capital at Work SGR S.p.A.

**b)Incorporation of TeamSystem Payments Holdco S.r.l. and TeamSystem Payments S.r.l.**

With the aim of optimising its organisational structure, in March 2019, TeamSystem S.p.A. set up a company called TeamSystem Payments Holdco S.r.l., in which it holds an interest of 100%. On 14 May 2019, TeamSystem Payments Holdco S.r.l. set up a company called TeamSystem Payments S.r.l., in which it holds an interest of 100%.

**● ACQUISITIONS OF INVESTMENTS**

**a) Acquisitions of Factor@Work and Whit-e S.r.l.**

In March 2019, TeamSystem Group acquired Factor@Work S.r.l. and Whit-e S.r.l. The former offers portfolio management services to investors, while the latter is a leading provider of platforms and technological solutions for invoice trading. Both companies are fully held by TeamSystem Financial Value Chain S.r.l., a new company specifically incorporated by TeamSystem S.p.A. in 2019 (see above).

**b) Acquisition of Skylab Italia S.r.l.**

In April 2019, TeamSystem S.p.A. acquired a 60% interest in Skylab Italia S.r.l., a company specialised in cloud solutions for personnel management. This acquisition will allow TeamSystem Group to expand its product portfolio, as well as to reinforce its competitive position in this target market.

**c) Acquisition of Gi.esse Macchine Utensili S.r.l.**

In September 2019, Nuovamacut S.p.A. acquired a 100% interest in Gi.esse Macchine Utensili S.r.l., a leading company in the purchase and sale of industrial machinery in the north of Italy, already synergically integrated with Nuovamacut Automazione S.p.A.

**d) Acquisition of TeamSystem 4 S.r.l.**

In July 2019, TeamSystem S.p.A. acquired a controlling interest (of 100%) in TeamSystem 4 S.r.l., which acts as a TeamSystem products dealer for its assigned territory.

**e) Acquisition of TechMass S.r.l.**

At the end of September 2019, TeamSystem S.p.A. acquired a 51% controlling interest in TechMass S.r.l., a software house engaged in software development and the digitalisation of production processes. With this acquisition, the Group has further strengthened its product range dedicated to digital transformation (which facilitates a stronger link between manufacturing plants and management systems).

**f) Acquisition of Iperelle S.r.l.**
At the end of October 2019, Nuovamacut Automazione S.p.A. acquired a 100% holding in Iperelle S.r.l., a company specialised in the configuration, customisation and distribution of PLM and CAD/CAM solutions. With this acquisition, Nuovamacut further strengthened its leadership in the PLM and CAD/CAM solutions market, enabling it to cover all product development processes for both small and large enterprises.

**g) Acquisition of BK Service S.r.l.**
In December 2019, TeamSystem Service S.r.l. acquired a 100% holding in a newly incorporated company called BK Service S.r.l., a company to which the sellers had transferred an HR services business that offers payroll and payroll processing and personnel administration and management services. The transaction has enabled TeamSystem Service to expand its market share and its presence in Italy.

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**■OUTSOURCING OF BUSINESS UNITS**
**Sale of the investment in Comsyst S.r.l.**
With the aim of increasing the flexibility and effectiveness of the support service that TeamSystem Group offers its customers, in December 2019, TeamSystem S.p.A. sold its investment in Comsyst S.r.l.

**Hardware business unit lease agreement – TeamSystem S.p.A.**
The business unit lease agreement pertaining to TeamSystem S.p.A.'s Hardware division has been extended to the second quarter of 2020.

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**SUMMARY OF TEAMSYSTEM GROUP'S RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019**
Presented below are the results of TeamSystem Group for the 2019 and 2018 financial years.

| Euro thousands<br><br>RECLASSIFIED CONSOLIDATED STATEMENT OF PROFIT AND LOSS ACCOUNT | 31 Dec 2019 | % | 31 Dec 2018 | % | Change | % Change |
|---|---|---|---|---|---|---|
| **TOTAL REVENUE** | **376,450** | **100.0%** | **336,404** | **100.0%** | **40,046** | **11.9%** |
| Cost of raw and other materials | (29,143) | -7.7% | (28,339) | -8.4% | (804) | 2.8% |
| Cost of services | (87,195) | -23.2% | (75,400) | -22.4% | (11,795) | 15.6% |
| Personnel costs | (109,705) | -29.1% | (103,997) | -30.9% | (5,708) | 5.5% |
| Other operating costs | (4,277) | -1.1% | (2,988) | -0.9% | (1,290) | 43.2% |
| **ADJUSTED EBITDA** | **146,129** | **38.8%** | **125,681** | **37.4%** | **20,449** | **16.3%** |
| Allowance for bad debts | (4,832) | -1.3% | (5,131) | -1.5% | 299 | -5.8% |
| Depreciation and amortization of non current assets | (84,641) | -22.5% | (83,040) | -24.7% | (1,601) | 1.9% |
| Other provisions for risks and charges | (4,360) | -1.2% | (7,020) | -2.1% | 2,660 | -37.9% |
| Costs for changing and closing locations | 0 | 0.0% | (980) | -0.3% | 980 | -100.0% |
| Advisory expenses related to reorganization and cost saving projects | (2,249) | -0.6% | (7,574) | -2.3% | 5,325 | -70.3% |
| Personnel redundancy | (1,346) | -0.4% | (706) | -0.2% | (640) | 90.7% |
| Acquisitions and mergers costs | (517) | -0.1% | (1,293) | -0.4% | 776 | -60.0% |
| Cost for change management program | 0 | 0.0% | (2,111) | -0.6% | 2,111 | -100.0% |
| Cost for credit collection project | 0 | 0.0% | (364) | -0.1% | 364 | -100.0% |
| Tax optimization costs | 0 | 0.0% | (395) | -0.1% | 395 | -100.0% |
| Settlements with clients and agents | (1,121) | -0.3% | (1,112) | -0.3% | (9) | 0.8% |
| Other items | (105) | 0.0% | (465) | -0.1% | 360 | -77.5% |
| **OPERATING RESULT** | **46,958** | **12.5%** | **15,490** | **4.6%** | **31,468** | **203.1%** |
| Net Finance Income (Cost) | (84,321) | -22.4% | (89,363) | -26.6% | 5,042 | -5.6% |
| **PROFIT (LOSS) BEFORE INCOME TAXES** | **(37,363)** | **-9.9%** | **(73,873)** | **-22.0%** | **36,509** | **-49.4%** |
| Current income tax | (12,481) | -3.3% | 957 | 0.3% | (13,438) | -1404.6% |
| Deferred income tax | 14,568 | 3.9% | 16,956 | 5.0% | (2,388) | -14.1% |
| **PROFIT (LOSS) FOR THE YEAR** | **(35,275)** | **-9.4%** | **(55,960)** | **-16.6%** | **20,684** | **-37.0%** |
| (Profit) Loss for the year - Non controlling interests | (71) | 0.0% | (70) | 0.0% | (1) | 1.4% |
| **PROFIT (LOSS) FOR THE YEAR - OWNERS OF THE COMPANY** | **(35,347)** | **-9.4%** | **(56,030)** | **-16.7%** | **20,683** | **-36.9%** |

In the above table and elsewhere in this directors' report, the following performance indicators are used, with regard to TeamSystem Group's earnings:

**Adjusted EBITDA** = This is calculated as follows:
Profit (loss) for the year plus (i) Income tax; (ii) Finance income and costs; (iii) Other provisions for risks and charges; (iv) Depreciation and amortisation of non-current assets; (v) Impairment of non-current assets; (vi) Impairment of receivables and credit losses; (vii) Costs deemed by Management to be **non-core** for the measurement of the Group's performance: Strategic marketing costs; Office closure and relocation costs; Advisory costs related to reorganization and cost saving projects; Personnel restructuring costs; IT system integration and transformation costs; Acquisition and merger costs; Internationalisation project costs; Cost of services relating to change management program; Credit collection project costs; Tax optimization costs; Settlements with customers and agents; Other minor costs.

Set out below is a 2019 and 2018 **Adjusted EBITDA** reconciliation:

| Euro Thousand | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| **PROFIT (LOSS) FOR THE YEAR** | (35,275) | (55,960) | 20,685 | -37.0% |
| Income tax | (2,087) | (17,913) | 15,825 | -88.3% |
| Financial income and expenses | 84,321 | 89,363 | (5,042) | -5.6% |
| Other provisions for risks and charges | 4,360 | 7,020 | (2,660) | -37.9% |
| Depreciation and amortization of non current assets | 84,641 | 83,040 | 1,601 | 1.9% |
| Allowance for bad debts | 4,832 | 5,131 | (299) | -5.8% |
| Costs for changing and closing locations | | 980 | (980) | -100.0% |
| Advisory expenses related to reorganization and cost saving projects | 2,249 | 7,574 | (5,325) | -70.3% |
| Personnel redundancy | 1,346 | 706 | 640 | 90.7% |
| Acquisitions and mergers costs | 517 | 1,293 | (776) | -60.0% |
| Cost for change management program | | 2,111 | (2,111) | -100.0% |
| Cost for credit collection project | | 364 | (364) | -100.0% |
| Tax optimization costs | | 395 | (395) | -100.0% |
| Settlements with clients and agents | 1,121 | 1,112 | 9 | 0.8% |
| Other items | 105 | 465 | (360) | -77.5% |
| **ADJUSTED EBITDA** | **146,129** | **125,681** | **20,449** | **16.3%** |

It should be noted that the **Adjusted EBITDA** financial parameter is not governed by **IFRS** and, accordingly, the criteria adopted by TeamSystem Group for its computation may not be comparable with those adopted by other companies or groups.

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TeamSystem Group closed 2019 with consolidated Total Revenue of € 376,450 thousand (€ 336,404 thousand in 2018), Adjusted EBITDA of € 146,129 thousand (€ 125,681 thousand in 2018) and a loss for the year attributable to the Group of € 35,347 thousand (€ 56,030 thousand in 2018).

With regards to the growth in Total Revenue (which has increased by € 40,046 thousand compared to the figure for the year ended December 2018), this change is mainly due to significant organic growth achieved by TeamSystem Group in 2019, as may be seen from the table below that sets out a breakdown of revenue:

Euro Millions

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| **Direct Channel** | **117.2** | **116.8** | **0.3** | **0.3%** |
| Recurring | 93.7 | 80.0 | 13.7 | 17.1% |
| Licenses/Prof. Services | 23.5 | 36.8 | (13.3) | -36.2% |
| **Indirect Channel** | **107.1** | **99.3** | **7.8** | **7.8%** |
| Recurring | 100.0 | 92.4 | 7.6 | 8.2% |
| Licenses/Prof. Services | 7.1 | 6.9 | 0.2 | 2.7% |
| **Micro and New Business Solutions** | **50.1** | **20.4** | **29.7** | **145.7%** |
| Recurring | 44.4 | 16.8 | 27.6 | 164.6% |
| Licenses/Prof. Services | 5.7 | 3.6 | 2.1 | 58.2% |
| **Vertical Solutions** | **99.9** | **95.5** | **4.4** | **4.6%** |
| Recurring | 52.6 | 47.3 | 5.3 | 11.2% |
| Licenses/Prof. Services | 47.3 | 48.2 | (0.9) | -1.9% |
| **Hardware** | **2.4** | **3.6** | **(1.1)** | **-31.8%** |
| **Others** | **(0.3)** | **0.7** | **(1.0)** | **-139.0%** |
| **TOTAL REVENUE** | **376.5** | **336.4** | **40.1** | **11.9%** |

Recurring revenues refer to those contracts for which customers pay a fee that is renewed (generally tacitly) on expiry. They are basically represented by contracts activated in subscription on premises, subscription in cloud, software and hardware assistance and maintenance contracts, LTA, education, etc.

Recurring revenues for the year 2019 have increased compared to the previous year at all levels of aggregation of revenues by channel / product.

In absolute terms, the growth in recurring Revenues particularly affected sales relating to Micro and New Business Solutions (increase in revenue equal to € 27.6 million compared to 2018) and sales made through the direct channel (increase in revenue equal to € 13.7 million compared to 2018) and through the indirect channel (increase in revenue equal to € 7.6 million compared to 2018).

With regards to the revenues for Licenses / Services there was an overall decrease and in particular in the direct channel, with a decrease of € 13.3 million, equal to a negative change of 36.2% compared to 2018.

With regards to the operating margin, note that Adjusted EBITDA for 2019 (of € 146,129 thousand) has grown when compared to the 2018 figure (€ 125,681 thousand) by approximately € 20,449 thousand, while there has also been an improvement in the operating margin percentage that has gone from 37.4% in 2018 to approximately 38.8% in 2019, reflecting the growing economies of scale achieved by the Group during the course of 2019.

The loss reported for 2019 was mainly attributable to the impact of the amortisation of intangible assets (approximately € 53.3 million) recognised as a result of the allocation of the purchase price paid for the acquisition of TeamSystem Group (and its principal subsidiaries), as well as the significant impact of the remeasurement of the liabilities to non-controlling shareholders as a consequence of a significant improvement in operating results and net finance income (cost) by certain subsidiaries for which put and call option agreements were still outstanding at 31 December 2019.

Moreover, the loss for the year does not reflect TeamSystem Group's operating and financial dynamics, which, again in 2019, have shown a constant and continuous improvement on the prior year's result.

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During the course of 2019, TeamSystem Group completed its revision of its corporate reporting system that led to substantial changes to the format of internal reports reviewed periodically by Management with the definitive elimination of the breakdown at the level of the previously identified three operating segments: **Software Solutions, Cloud Software Solutions and Hardware.**
In fact, Group Management deemed it appropriate and necessary (in a technological context of a market characterised by continuous evolution) to review its reporting activities that, effective 2019, envisage one sole

operating segment for reporting purposes, the **Software Business Unit**, in line with the new organisational and internal responsibility structure.

In fact, consistent with the Group's new strategic vision and on account of changed market conditions, whereby it is critical to continuously adjust to available technologies, TeamSystem Group has identified a new business direction and new organisational and reporting responsibilities that render the 3 historical operating segments (Software Solutions, Cloud Software Solutions and Hardware) increasingly less independent and significant for a presentation of the manner in which the Group's business is evolving.

Technological developments that are inevitably of interest to TeamSystem Group (on account of the industrial sector it pertains to) offer the Group's customers software solutions that may increasingly be accessed via Cloud technology and, thus, the previous presentation of the Group's business has become less significant on account of continuous migration to new technology. Moreover, following the outsourcing of hardware, which commenced in 2018 and was completed in the year just ended, responsibility for the former Hardware division has been reallocated within the sole segment, partly due to the ancillary and supportive nature that hardware products have in relation to the main software business in the new competitive and market environment.

For the above reasons, during the course of 2019, it became necessary to establish a new reporting model based on one sole operating segment for reporting purposes, namely the **Software Business Unit** as a whole, aligned and perfectly conforming to the current organisational and business structure, which better reflects the Group's operations today.

Note that, at 31 December 2019, the financial sector companies that were newly incorporated and newly acquired in 2019 do not meet the quantitative thresholds set out in the applicable accounting standard (IFRS 8.13) and, given their immateriality within the Group, no specific disclosures have been made at Group level. Related disclosures have thus been presented in the "**Other sectors**" category, separately from the other reconciling items within the reconciliations required by IFRS 8.23.

Set out below is the Group's segment information for the year just ended and for the previous year, which has been restated to reflect the new operating segment structure.

**Euro Millions**

| OPERATING SEGMENTS | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Business unit - Software | 375,8 | 336,4 | 39,4 | 12% |
| Other | 0,7 | | 0,7 | 100% |
| **TOTAL REVENUE** | **376,4** | **336,4** | **40,0** | **11,9%** |
| Business unit - Software | 146,4 | 125,7 | 20,7 | 17% |
| Other | (0,3) | | (0,3) | 100% |
| **ADJUSTED EBITDA** | **146,1** | **125,7** | **20,4** | **16,3%** |

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## ►TEAMSYSTEM GROUP'S FINANCIAL POSITION

The tables which follow present the Group's financial position at 31 December 2019 and 2018 and highlight, among other aspects, the Group's net invested capital, working capital and IFRS assets, being measures that are used by the Group as non-GAAP indicators (and, given that they are not governed by **IFRS**, the preparation criteria adopted by TeamSystem Group may not be comparable with those adopted by other companies or groups).

| Euro thousands<br>CONSOLIDATED NET INVESTED CAPITAL | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Trade receivables | 122,474 | 128,941 | (6,468) | -5.0% |
| Inventories | 845 | 1,067 | (222) | -20.9% |
| Other receivables | 30,395 | 24,847 | 5,548 | 22.3% |
| Trade payables | (47,692) | (38,928) | (8,764) | 22.5% |
| Other liabilities | (100,984) | (86,810) | (14,174) | 16.3% |
| **Working Capital** | **5,038** | **29,118** | **(24,080)** | **-82.7%** |
| **Tax assets net of Tax liabilities** | **192** | **8,628** | **(8,437)** | **-97.8%** |
| Tangible assets | 15,139 | 15,326 | (187) | -1.2% |
| Intangible assets | 51,795 | 46,753 | 5,042 | 10.8% |
| Right of use | 22,987 | 23,895 | (908) | n.s. |
| Asset IFRS | 590,191 | 634,786 | (44,596) | -7.0% |
| Goodwill | 734,257 | 707,681 | 26,576 | 3.8% |
| Investments | 436 | 582 | (146) | -25.1% |
| **Non Current Assets** | **1,414,805** | **1,429,024** | **(14,220)** | **-1.0%** |
| **Invested Capital** | **1,420,034** | **1,466,771** | **(46,737)** | **-3.2%** |
| Staff leaving indemnity | (17,338) | (14,892) | (2,445) | 16.4% |
| Provisions for risks and charges | (8,595) | (9,280) | 685 | -7.4% |
| Deferred tax assets (liabilities) - net | (154,198) | (166,675) | 12,477 | -7.5% |
| **Provision for contingencies and other liabilities** | **(180,131)** | **(190,847)** | **10,717** | **-5.6%** |
| **NET INVESTED CAPITAL** | **1,239,903** | **1,275,923** | **(36,020)** | **-2.8%** |

| Euro thousands<br>CONSOLIDATED FINANCIAL SOURCES | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Financial liabilities with banks and other institutions | 911,668 | 852,035 | 59,633 | 7.0% |
| Financing Fees - Prepayment | (1,114) | (1,525) | 411 | -27.0% |
| Other financial assets | (72) | (188) | 116 | -61.5% |
| Cash and bank balances | (36,412) | (24,574) | (11,838) | 48.2% |
| **Net Financial Indebtedness** | **874,070** | **825,747** | **48,322** | **5.9%** |
| Share capital and reserves | 400,644 | 505,741 | (105,097) | -20.8% |
| Profit (Loss) attributable to Owners of the Company | (35,346) | (56,030) | 20,684 | -36.9% |
| **TOTAL EQUITY attributable to OWNERS OF THE COMPANY** | **365,298** | **449,711** | **(84,413)** | **-18.8%** |
| Non controlling interests - Capital and reserves | 465 | 394 | 71 | 18.0% |
| Non controlling interests - Profit (Loss) | 71 | 70 | 1 | 1.4% |
| **TOTAL NON CONTROLLING INTERESTS** | **536** | **464** | **72** | **15.4%** |
| **FINANCIAL SOURCES** | **1,239,903** | **1,275,923** | **(36,020)** | **-2.8%** |

The amounts shown above have been taken from the financial statements and some components have been modified and/or aggregated as follows:

**Working Capital** = the sum of the consolidated financial statement components Inventories, Trade receivables, Other receivables - current and non current less Other liabilities - current and non current and Trade payables.

**Intangible assets** as presented in the consolidated financial statements have been broken down between:

**IFRS assets =** mainly include amounts allocated to intangible assets: Brand, Customer relationship, Software and Other assets that were recognised upon the allocation of the price paid for the acquisition of TeamSystem Group and the other TeamSystem Group companies.

**Intangible assets =** consist mainly of capitalised development costs.

The Group's net financial indebtedness at 31 December 2019 amounts to approximately € 874,070 thousand, representing an increase of € 48,322 thousand compared to €825,747 thousand at 31 December 2018; this increase is essentially due to the remeasurement of the liabilities to non-controlling shareholders based on the operating results and net finance income (cost) reported in 2019 by certain subsidiaries for which put and call option agreements were still outstanding at the year end reporting date of 31 December 2019.

The Group's consolidated equity at 31 December 2019 amounts to € 365,298 thousand, representing a decrease compared to the balance at 31 December 2018 (€ 449,711 thousand) of € 84,413 thousand, essentially due to the loss reported by the Group in 2019 and to the distribution of reserves approved in 2019 by the parent company, TeamSystem Holding S.p.A.

The leverage ratio (net financial indebtedness/equity) was 2.4 at 31 December 2019 (1.8 at 31 December 2018).

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## ►WORKING CAPITAL

The following table shows the components of working capital at 31 December 2019 and 2018:

| Euro thousands | | | | |
|---|---|---|---|---|
| **WORKING CAPITAL** | **31 Dec 2019** | **31 Dec 2018** | **Change** | **% Change** |
| Trade receivables | 122,474 | 128,941 | (6,468) | -5.0% |
| Inventories | 845 | 1,067 | (222) | -20.9% |
| Other receivables | 30,395 | 24,847 | 5,548 | 22.3% |
| Trade payables | (47,692) | (38,928) | (8,764) | 22.5% |
| Other liabilities | (100,984) | (86,810) | (14,174) | 16.3% |
| **WORKING CAPITAL - TOTAL** | **5,038** | **29,118** | **(24,080)** | **-82.7%** |

TeamSystem Group's working capital is influenced by seasonal factors. This is mainly due to the timing of billings relating to support contracts that are particularly concentrated (for both the Direct channel and the Indirect channel) in the first quarter of the year. Because of this seasonality, working capital is generally at its maximum in the first quarter of the year. Deferred income, which is included in Other liabilities, has the same seasonality as sales invoicing, with an inverse correlation to trade receivables and is released to income over the course of the year.

Working capital has decreased by approximately € 24,080 thousand from € 29,118 thousand at 31 December 2018 to € 5,038 thousand at 31 December 2019 mainly due to an increase in Other liabilities (that have gone from € 86,810 thousand at 31 December 2018 to € 100,984 thousand at 31 December 2019) and to a decrease in Trade receivables by an amount of € 6,468 thousand.

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## ►CONSOLIDATED STATEMENT OF CASH FLOWS

Presented below is the statement of cash flows of TeamSystem Group for 2019 and 2018:

Euro thousands

| **CONSOLIDATED STATEMENT OF CASH FLOWS** | **31 Dec 2019** | **31 Dec 2018** | **Change** | **% Change** |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | **147.490** | **99.819** | **47.670** | **47,8%** |
| Capital Expenditure | (29.642) | (29.144) | (498) | 1,7% |
| Acquisition of investments | (11.828) | (4.137) | (7.691) | n.s. |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | **(41.470)** | **(33.281)** | **(8.189)** | **24,6%** |
| Financial balance paid / cashed-in | (40.136) | (28.919) | (11.217) | 38,8% |
| Financing Fees paid | 0 | (15.443) | 15.443 | n.s. |
| Liabilities to non-controlling shareholders paid | (6.039) | (13.802) | 7.763 | -56,2% |
| Distribution of reserves | (48.000) | (58) | (47.942) | n.s. |
| Other changes in Equity | 0 | 0 | 0 | 0,0% |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | **(94.175)** | **(58.222)** | **(35.953)** | **61,8%** |
| **Change in Exchange rates** | **(7)** | **(2)** | **(5)** | **n.s.** |
| **INCREASE (DECREASE) IN CASH AND BANK BALANCES** | **11.837** | **8.314** | **3.523** | **42,4%** |

TeamSystem Group's cash flows from operating activities for the year ended 31 December 2019 amount to € 147,490 thousand, up by € 47,670 thousand on the corresponding figure for the year ended 31 December 2018 (€ 99,819 thousand). This increase is attributable to organic growth achieved by the Group in 2019.
Due to the fact that 31 December 2017 was not a working day, collections from electronic bank receipts falling due on 31 December 2017 were postponed to January 2018 ("weekend effect"). If cash flows from operating activities for 2018 were to be normalised to take account of collections postponed to 2018 (amounting to € 3,945 thousand), cash flows from operating activities for 2018 would have been € 95,874 thousand and, consequently, cash flows

from operating activities for 2019 would have been € 51,615 thousand higher than cash flows from operating activities for 2018.

Regarding cash flows from investing activities, they amount to € (41,470) thousand for the year ended 31 December 2019, compared to € (33,281) thousand for the year ended 31 December 2018, with the change amounting to € (8,189) thousand, which is mainly attributable to cash-out paid during the course of 2019 for the acquisition of equity interests in White-e, Factor@work, Gi.Esse, Techmass, Skylab Italia, Iperelle, BK Service S.r.l. and TeamSystem 4.

Cash flows from financing activities amount to € (94,175) thousand, compared to € (58,222) thousand for the year ended 31 December 2018, mainly due to the distribution of reserves in 2019 by the parent company, TeamSystem Holding S.p.A.

## ►CAPITAL EXPENDITURE

The following table shows the capital expenditure incurred by the Group in the years ended 31 December 2019 and 2018:

| Euro thousands<br>CAPITAL EXPENDITURE | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Capex - Tangible Assets | 3,005 | 3,177 | (172) | -5.4% |
| Capex - Intangible Assets | 12,307 | 12,081 | 226 | 1.9% |
| Capitalized development costs - personnel costs | 11,882 | 11,696 | 186 | 1.6% |
| Capitalized development costs - service costs | 2,447 | 2,190 | 257 | 11.7% |
| **CAPITAL EXPENDITURE** | **29,642** | **29,144** | **498** | **1.7%** |

Capital expenditure encompasses expenditure on tangible and intangible non-current assets as well as the total of amounts capitalised by the Group companies in the year for process/product development. With respect to capital expenditure on tangible and intangible assets, the Group has historically been characterised by a low level of capital expenditure, in line with the sector in which it operates.

Capital expenditure incurred by the Group in 2019 is essentially in line with the corresponding amount recognised in 2018.

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## ►RESEARCH AND DEVELOPMENT

Again, during the course of 2019, as previously indicated, product research and development activity was particularly intense, having been concentrated on the introduction of new software products, new functionalities or new modules with respect to those already existing.
The total amount of development costs capitalised (at Group level) in 2019 amounts to € 14.3 million (compared to € 13.9 million in 2018). In addition to changes in the scope of consolidation, this growth is due to the Group's continuous commitment to seek new solutions and products responding to market needs.

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## ►FINANCIAL RISK MANAGEMENT

The Group is exposed to a variety of risks of a financial nature that are managed and monitored centrally and which can be categorised as follows:

### Foreign exchange risks

The Group is not exposed to foreign exchange risks, since the Group companies operate mainly in Italy and, for the time being, the impact of international transactions is insignificant. The Group's efforts to develop new business abroad have been very recent and, consequently, its foreign exchange risks are almost non-existent.

### Credit risk

Credit risk is mitigated by the high fragmentation of the customer base and the high degree of customer loyalty. In any case, the customer credit policy, by customer category (resellers and end-users), envisages:
a) the control and assessment of credit standing;
b) the control of the flow of payment collection;
c) taking appropriate action by issuing reminders and by the use of credit collection procedures, including recourse to companies specialised in debt recovery.

The maximum theoretical exposure to credit risk for the Group is represented by the carrying value of trade receivables as presented in the consolidated financial statements, as well as residual financial receivables recorded in current and non-current financial assets.

As at 31 December 2019, the Group did not have any insurance cover for trade receivables.

The tool used by the Group for the classification and control of trade receivables consists of an Ageing List, in which amounts of overdue receivables are summarised by ageing category, from the most recent (0-30 days) to the oldest (over 180 days).

With respect to overdue receivables, the allowance recorded in the consolidated financial statements was determined based on a specific analysis of doubtful accounts, plus a general provision to take account of expected further losses on balances not yet overdue at the reporting date (in accordance with IFRS 9), based on historical data and experience of losses recorded by the Group.

**Interest rate risk**

TeamSystem Group's finance structure mainly consists of floating rate debt as a consequence of the debt refinancing transaction that TeamSystem Group completed in April 2018 and which consisted of the issue of Floating Rate Notes with a principal amount of € 750 million. The yield on these Notes is linked to the 3 month Euribor rate (subject to a floor of 0.00%), plus a spread established contractually. Conditions applied to the RCF (also renegotiated upon the issue of the Notes in April 2018) also provide for floating interest rates (based on Euribor (with a floor of 0.00%) plus a spread established contractually each quarter). With the aim of reducing the risk of market interest rate fluctuations associated with the Floating Rate Notes, TeamSystem Group has entered into interest rate swap contracts (with a total notional amount of € 500 million) and with a termination date of 15 April 2020.

If interest rates payable on the Notes had been 0.5% higher during the course of 2019 (with respect to the interest rate actually paid during the course of 2019), finance costs pertaining to the Notes would have been € 1.3 million higher; if, however, interest rates payable on the Notes had been 1.00% higher (with respect to those actually paid during the course of 2019), TeamSystem Group would have been faced with approximately € 2.5 million of higher finance costs.

No sensitivity analysis has been performed on interest rates payable on the RCF, since no significant average amounts relating to the RCF were recognised during the course of 2019 (and there was a nil balance at 31 December 2019).

**Liquidity risk**

The two main factors that determine the dynamics of the Group's liquidity are, on one hand, the resources generated/absorbed by operating and investment activities and, on the other hand, the maturity of financial liabilities. Of the procedures adopted with the intention of optimising cash flow management and of reducing the liquidity risk, the following should be noted:
-the maintenance of an adequate level of available liquidity;
-the adoption of Cash-pooling at Group level;
-the obtainment of adequate borrowing facilities;
-the control of prospective liquidity conditions, in relation to the corporate planning process.

## ►HUMAN RESOURCES

The number of TeamSystem Group's employees in the year ended 31 December 2019 was 2,139 persons, broken down as follows:

| | Average 2019 | Average 2018 | Change | 31 Dec 2019 | 31 Dec 2018 | Change |
|---|---|---|---|---|---|---|
| Managers | 70 | 63 | 7 | 71 | 69 | 2 |
| Middle managers / white collars / workers | 1,940 | 1,884 | 56 | 2,068 | 1,811 | 257 |
| **Total** | **2,010** | **1,947** | **63** | **2,139** | **1,880** | **259** |

The human resources employed by TeamSystem Group are an asset to be enhanced via attentive professional development paths. The Group constantly pursues the goal of improving the overall effectiveness of management, through attendance at training courses held by in-house personnel and by external collaboration.

## ►INFORMATION PERTAINING TO THE ENVIRONMENT

Environmental issues are not crucial on account of the sector in which the Group operates. However, it should be noted that the parent company and the other Group companies operate in a responsible and respectful manner with regard to the environment, in order to reduce the external impact of its activities. Moreover, the sector in which the Group operates is characterised by a low environmental risk in comparison to other manufacturing and production activities.

## ►SIGNIFICANT SUBSEQUENT EVENTS

### Acquisition of Prosystem S.r.l. business segment

With the aim of strengthening its presence in the management software market for tax consultants, in January 2020, TeamSystem S.p.A. acquired a business segment from Prosystem S.r.l., consisting, inter alia, of rights relating to management software for tax consultants and existing contractual relationships.

### TeamSystem 5 S.r.l.

To increase its direct presence in Italy, in January 2020, TeamSystem S.p.A. acquired a controlling interest in TeamSystem 5 S.r.l., a newco to which Aldebra S.p.A. (a TeamSystem products dealer that markets and sells “Metodo”, “TeamSystem Digital”, “ESA”, “Alyante”, “Lynfa” and “STR” software solutions) had previously transferred a business segment.

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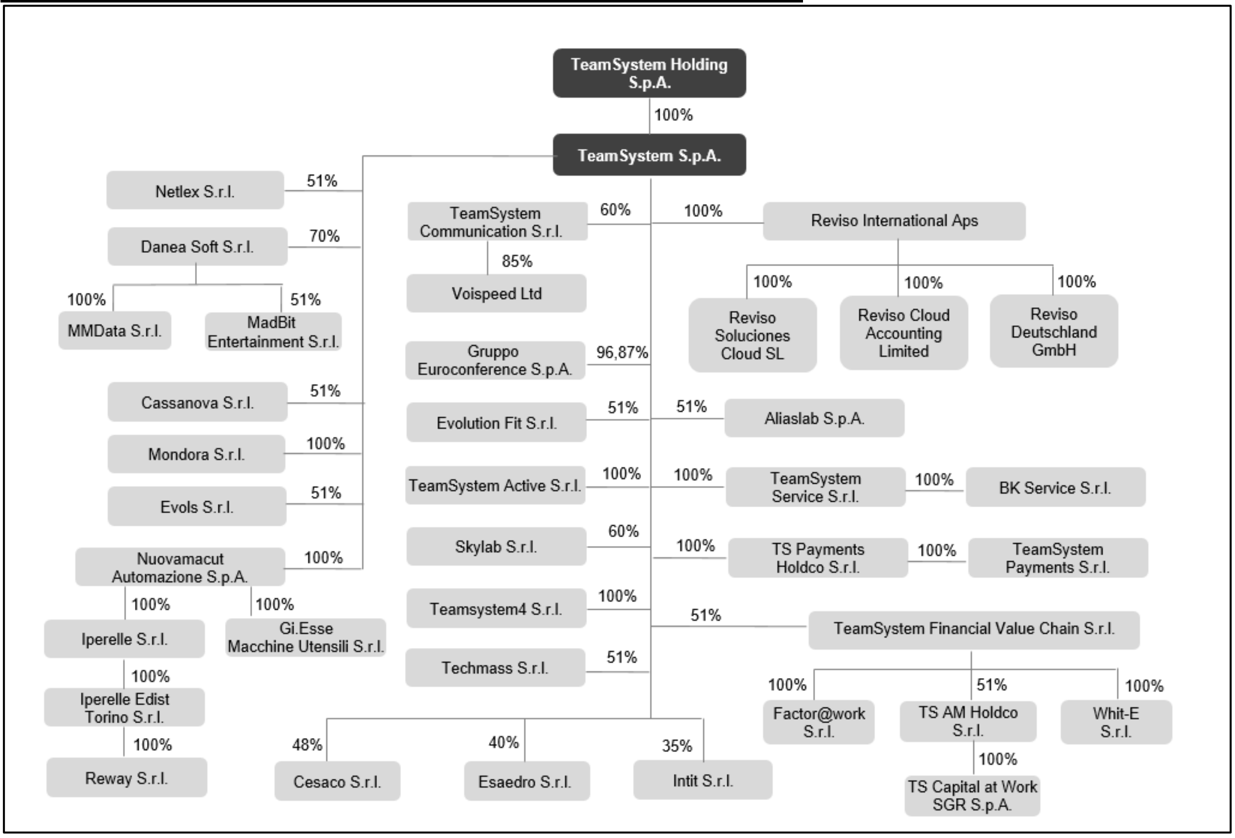
## ►BUSINESS OUTLOOK

As known, starting from January 2020, the national and international scenario has been characterized by the spread of Coronavirus and the consequent restrictive measures for its containment, put in place by the public authorities of the countries concerned. These circumstances, extraordinary in nature and extent, have direct and indirect repercussions on economic activity and have created a context of general uncertainty, the evolution of which and the related effects are not currently foreseeable. The potential effects of this phenomenon on the consolidated financial statements of the Group cannot be determined to date and will be subject to constant monitoring throughout the year.
The Group, on the basis of these recent developments, is evaluating and implementing actions aimed at limiting the possible negative effects that could arise from the further propagation of the national and international emergency.
The data relating to revenues in the first months of 2020 show, albeit in a macroeconomic context still characterized by elements of uncertainty, turnover figures still in line with expectations.
The TeamSystem Directors believe that the negative effects of this emergency can be contained considering the sector to which the Group operates and are in any case convinced that the Group for strategy, organization and management is prepared to face even a possible critical phase of the business cycle. Nonetheless, the spread of the epidemic and the unfolding of its economic effects could also have negative effects on the current year for the Group compared to what was originally planned.

## TRANSACTIONS WITH SUBSIDIARIES, ASSOCIATES AND PARENT COMPANIES

### ►STRUCTURE OF TEAMSYSTEM GROUP AT 31 DECEMBER 2019




**Note:**
The percentage holdings shown do not comprise put and call option agreements and/or treasury shares held.

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### ►PARENT COMPANIES AND MANAGEMENT AND COORDINATION

As at 31 December 2019, TeamSystem Holding S.p.A. is controlled pursuant to Art. 2359 of the Italian Civil Code by Barolo Lux 1 S.a.r.l. (sole shareholder), which manages and coordinates the former. We remind you that, on 1 March 2016, private equity funds advised by Hellman & Friedman acquired a controlling interest in TeamSystem Group from the previous shareholders (inclusive of HG Capital, the majority shareholder).

At 31 December 2019, TeamSystem Holding S.p.A. did not hold, nor did it acquire or dispose of during the 2019 financial year, not even through trusts or nominees, any shares or quotas relating to parent companies.

During the course of 2019, TeamSystem Holding S.p.A. approved a distribution of capital reserves to the parent Barolo Lux 1 S.à.r.l. Except for the aforegoing transaction, there were no transactions with nor balances due from/to the parent Barolo Lux 1 S.à.r.l.

## ►SUBSIDIARIES

Listed below are key figures relating to and a brief description of the Group companies.

**Amounts in Euro**

| CONSOLIDATED COMPANIES LINE BY LINE | Registered office | Share capital | Equity | Profit (Loss) | Currency | % held | % consolidation | Notes |
|---|---|---|---|---|---|---|---|---|
| TeamSystem Holding S.p.A. | Pesaro | 5,450,000 | 643,684,859 | 48,680,381 | EUR | | | |
| TeamSystem S.p.A. | Pesaro | 24,000,000 | 343,792,183 | (28,432,210) | EUR | 100.00 | 100.00 | |
| TeamSystem Service S.r.l. | Campobasso | 200,000 | 16,631,137 | 9,910,059 | EUR | 100.00 | 100.00 | |
| TeamSystem Communication S.r.l. | Civitanova Marche (MC) | 23,300 | 116,787 | 7,618 | EUR | 60.00 | 100.00 | 1 |
| Danea Soft S.r.l. | Vigonza (PD) | 100,000 | 17,495,035 | 9,290,311 | EUR | 70.00 | 100.00 | 1 |
| Madbit Entertainment S.r.l. | Treviolo (BG) | 10,000 | 10,081,679 | 8,000,481 | EUR | 51.00 | 100.00 | 1 / 2 |
| MMDATA S.r.l. | Rome | 10,000 | 10,081,679 | 8,000,481 | EUR | 100.00 | 100.00 | 2 |
| Mondora S.r.l. | Milan | 105,000 | 2,606,416 | 574,176 | EUR | 100.00 | 100.00 | |
| Voispeed Limited | Saint Albans - UK | 1,000 | 100,682 | 886 | GBP | 85.00 | 85.00 | 3 |
| Aliaslab S.p.A. | Milan | 156,000 | 25,569,195 | 5,363,729 | EUR | 51.00 | 100.00 | 1 |
| Reviso International ApS | Copenhagen | 50,011 | (7,146,999) | (9,415,489) | DKK | 100.00 | 100.00 | |
| Reviso Cloud Accounting Limited | Reading | 1 | 19,921 | 5,794 | GBP | 100.00 | 100.00 | 4 |
| Reviso Soluciones Cloud S.L. | Madrid | 3,000 | 16,822 | 6,416 | EUR | 100.00 | 100.00 | 4 |
| Reviso Deutschland GmbH | Berlin | 25,000 | (35,494) | (33,677) | EUR | 100.00 | 100.00 | 4 |
| Evols S.r.l. | Catania | 887,000 | 1,393,340 | 173,058 | EUR | 51.00 | 100.00 | 1 |
| Netlex S.r.l. | Velletri (RM) | 12,500 | 576,557 | 186,738 | EUR | 51.00 | 100.00 | 1 |
| Cassanova S.r.l | Santarcangelo di Romagna (RN) | 10,000 | 769,362 | 22,923 | EUR | 51.00 | 100.00 | 1 |
| Evolution Fit S.r.l. | Turin | 10,000 | 328,130 | 313,793 | EUR | 51.00 | 100.00 | 1 |
| TeamSystem Active S.r.l. | Pesaro | 15,000 | 91,043 | 19,083 | EUR | 100.00 | 100.00 | |
| Gruppo Euroconference S.p.A. | Verona | 300,000 | 15,632,237 | 2,428,765 | EUR | 96.87 | 96.87 | 5 |
| Nuovamacut Automazione S.p.A. | Bologna | 108,000 | 18,543,505 | 4,864,426 | EUR | 100.00 | 100.00 | |
| TeamSystem 4 S.r.l. | Pesaro | 50,000 | 91,405 | 30,953 | EUR | 100.00 | 100.00 | |
| Skylab Italia S.r.l. | Turin | 143,600 | 6,181,342 | 1,338,020 | EUR | 60.00 | 100.00 | 1 |
| Gi.Esse Macchine Utensili S.r.l. | Assago (MI) | 100,000 | 1,327,552 | 133,110 | EUR | 100.00 | 100.00 | 6 |
| Iperelle S.r.l. | Brescia | 50,000 | 1,784,857 | 46,270 | EUR | 100.00 | 100.00 | 6 |
| Iperelle Edist Torino S.r.l. | Grugliasco (TO) | 100,000 | 322,963 | 11,544 | EUR | 100.00 | 100.00 | 7 |
| Reway S.r.l. | Monza (MB) | 10,000 | 143,756 | 8,105 | EUR | 100.00 | 100.00 | 7 |
| Techmass S.r.l. | Bassano del Grappa (VI) | 11,538 | 284,172 | 96,116 | EUR | 51.00 | 100.00 | 1 |
| BK Service S.r.l. | Rome | 1,010,000 | 5,510,000 | 0 | EUR | 80.00 | 100.00 | 8 |
| TeamSystem Financial Value Chain S.r.l. | Milan | 4,931,373 | 13,569,463 | (156,028) | EUR | 51.00 | 100.00 | 1 |
| Whit-e S.r.l. | Milan | 15,000 | 1,086,391 | 428,585 | EUR | 100.00 | 100.00 | 9 |
| Factor@Work S.r.l. | Milan | 65,000 | 188,985 | (395,660) | EUR | 100.00 | 100.00 | 9 |
| TeamSystem AM Holdco S.r.l. | Milan | 10,000 | 499,644 | (10,356) | EUR | 51.00 | 100.00 | 1 / 9 |
| TeamSystem Capital at Work SGR S.p.A. | Milan | 100,000 | 469,620 | (130,380) | EUR | 100.00 | 100.00 | 10 |
| TeamSystem Payments Holdco S.r.l. | Milan | 10,000 | 477,670 | (7,330) | EUR | 100.00 | 100.00 | |
| TeamSystem Payments S.r.l. | Milan | 125,000 | 24,733 | (450,267) | EUR | 100.00 | 100.00 | 11 |

**(1) = equity interest would be 100% should put and call option agreements be exercised;**
**(2) = investment held by Danea Soft S.r.l.;**
**(3) = investment held by TeamSystem Communication S.r.l.;**
**(4) = investment held by Reviso International Aps.;**
**(5) = takes account of treasury shares held by Gruppo Euroconference S.p.A.;**
**(6) = investment held by Nuovamacut Automazione S.p.A.;**
**(7) = investment held by Iperelle S.r.l.;**
**(8) = investment held by TeamSystem Service S.r.l.;**
**(9) = investment held by TeamSystem Financial Value Chain S.r.l.;**
**(10) = investment held by TeamSystem AM Holdco S.r.l.;**
**(11) = investment held by TeamSystem Payments Holdco S.r.l.;**

As described in the basis of consolidation section relating to the consolidated financial statements, equity investments in subsidiaries are consolidated, attributing to the Group a pertinent stake that takes account of existing put and call options on account of the nature of the agreements, which, in substance, represent a deferred acquisition of equity interests.

## ▪COMPANIES CONTROLLED IN THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

### TeamSystem S.p.A.

The company, which was set up in 1979, is the operating Parent Company of TeamSystem Group; it is located in Pesaro and is currently a 100% held subsidiary of TeamSystem Holding S.p.A.
The company develops and distributes, both through its direct branches and through its network of more than 300 specialised dealers, management software solutions for the professional and business market.

### Gruppo Euroconference S.p.A.

The company is located in Verona and is approximately 96.87% held (of which 5% is held through treasury shares) by TeamSystem S.p.A. The main activities of this investee are the provision of training and professional updates (both in training rooms and on-line) for accountants, lawyers, labour consultants, tax advisers and corporate administration managers.

### Nuovamacut Automazione S.p.A.

The company, which has its registered office in Reggio Emilia, was acquired in 2010 by TeamSystem S.p.A. (which, as of the reporting date, held a 100% stake therein). The company's main activities are the resale of and support, training and consulting for CAD/PLM software solutions and it also acts as an authorised representative for the sale of machine tools.

**TeamSystem Service S.r.l.**
TeamSystem Service S.r.l., which was set up by TeamSystem S.p.A. in 2010, provides payroll processing services exclusively to labour consultants, who are already TeamSystem Group customers, in order to offer them the chance to outsource lower value-added activities. In 2014, TeamSystem Service started marketing services consisting of electronically invoicing the Public Administration and the digital storage of invoices.

**TeamSystem Communication S.r.l. and Voispeed Limited**
The company, which has its registered office in Civitanova Marche (MC), was acquired in 2011 by TeamSystem S.p.A. The company offers computerised telephony and communications solutions, integrated with management software, databases and CRM. TeamSystem Communication S.r.l. holds a controlling interest in Voispeed Ltd, through which its products are sold in the United Kingdom.

**Danea Soft S.r.l.**
The company, which has its registered office in Vigonza (PD), was acquired in 2011 by TeamSystem S.p.A. and it develops and markets management software for small businesses, artisans and professionals.

**Madbit Entertainment S.r.l.**
In July 2015, Danea Soft S.r.l. acquired a controlling interest in Madbit Entertainment S.r.l. TeamSystem Group Management believes that the acquisition of Madbit Entertainment S.r.l. represents a fundamental step in the Group's growth strategy for the cloud products market, by adding a SaaS solution that is extremely important for the Group in the micro-business segment.

**MMData S.r.l.**
In February 2018, Danea Soft S.r.l. completed the acquisition of 100% of the capital of MMData Informatica S.r.l., a leading company in Italy in the provision of services and the distribution of software for condominium and property managers.

**Reviso International ApS and subsidiaries**
In May 2016, TeamSystem S.p.A. completed the acquisition of the entire capital of ECI Denmark ApS (which changed its name to Reviso International ApS in June 2016), a Danish software house that has developed Cloud-SaaS-native accounting and invoicing software designed mainly for small and medium-sized enterprises.

**Mondora S.r.l.**
In June 2016, TeamSystem S.p.A. acquired a controlling interest in Mondora S.r.l. Mondora will contribute to the development of TeamSystem Group by bringing new capabilities for the development of advanced Cloud/Saas products Cloud/Saas.

**Aliaslab S.p.A.**
On 22 December 2016, TeamSystem S.p.A. acquired a controlling interest in Aliaslab S.p.A. Aliaslab is a company specialised in electronic signature and authentication services, with distinctive market positioning in Italy. The transaction has made it possible for TeamSystem Group to leverage a series of solutions and state-of-the-art skills and to immediately become a significant player in the digital signatures software solutions market.

**Evols S.r.l.**
In March 2017, TeamSystem S.p.A. acquired a controlling interest in Evols S.r.l. (a company specialised in software for hotels and tourist facilities). This transaction has facilitated TeamSystem Group's entry into the tourist facilities software sector.

**Netlex S.r.l.**
In April 2017, Lexteam S.r.l. (merged by absorption into TeamSystem S.p.A. in 2017) acquired a controlling interest in Netlex S.r.l. Netlex S.r.l. develops and markets advanced cloud solutions for legal and professional practices.

**EvolutionFit S.r.l.**
In July 2017, Inforyou S.r.l. (merged by absorption into TeamSystem S.p.A. in 2019) acquired a controlling interest in Evolution Fit S.r.l., a company specialised in the development and marketing of cloud software for wellness operators (gyms, personal trainers etc…).

**Cassanova S.r.l.**

In July 2017, TeamSystem S.p.A. acquired a controlling interest in Cassanova S.r.l., a company specialised in the development and marketing of retail and restaurant management software.

**TeamSystem Active S.r.l.**
In March 2018, TeamSystem S.p.A. set up a subsidiary called Beetho S.r.l. (the name of which was subsequently changed to TeamSystem Active in November 2018). Currently, TeamSystem Active S.r.l. is a 100% held subsidiary of TeamSystem S.p.A. following the merger by absorption of Metodo S.r.l. into TeamSystem S.p.A. in 2019.

**Skylab Italia S.r.l.**
In April 2019, TeamSystem S.p.A. acquired a 60% interest in Skylab Italia S.r.l.
Skylab Italia S.r.l. is a company specialised in cloud solutions for personnel management. This acquisition will allow TeamSystem Group to expand its cloud product portfolio, as well as to reinforce its competitive position in this target market.

**TeamSystem 4 S.r.l.**
In July 2019, TeamSystem S.p.A. acquired a controlling interest (of 100%) in TeamSystem 4 S.r.l., which acts as a TeamSystem products dealer for its assigned territory.

**TeamSystem Financial Value Chain S.r.l. and subsidiaries**
On 19 February 2019, TeamSystem S.p.A. set up a subsidiary company called TeamSystem Financial Value Chain S.r.l., with the aim of making it become TeamSystem Group's centre of excellence for financial services. TeamSystem Financial Value Chain S.r.l. owns 100% of Factor@Work S.r.l. and Whit-e S.r.l., which were acquired by the Group in March 2019. The former provides portfolio management services to investors, while the latter is a leading provider of platforms and technological solutions for invoice trading.
TeamSystem Financial Value Chain S.r.l. is 51% held by TeamSystem S.p.A. (put/call option agreements have been entered into with non-controlling interest holders with respect to the remaining 49% interest).

TeamSystem Financial Value Chain S.r.l. subsequently set up a subsidiary company called TeamSystem AM Holdco S.r.l. (in which, at 31 December 2019, it held an interest of 51% – put/call option agreements have been entered into with respect to the remaining 49% interest), which, in turn, had set up a 100% held subsidiary called TeamSystem Capital at Work SGR S.p.A.

**TeamSystem Payments Holdco S.r.l. and TeamSystem Payments S.r.l.**
With the aim of optimising its operations, on 6 March 2019, TeamSystem S.p.A. set up a 100% held subsidiary called TeamSystem Payments Holdco S.r.l. On 14 May 2019, in turn, TeamSystem Payments Holdco S.r.l. set up a 100% held subsidiary called TeamSystem Payments S.r.l.

**Gi.esse Macchine Utensili S.r.l.**
In September 2019, Nuovamacut S.p.A. acquired a 100% interest in Gi.esse Macchine Utensili S.r.l., a leading company in the purchase and sale of industrial machinery in the north of Italy, already synergically integrated with Nuovamacut Automazione S.p.A.

**Iperelle S.r.l. and subsidiaries**
At the end of October 2019, Nuovamacut Automazione S.p.A. acquired a 100% holding in Iperelle S.r.l., a company specialised in the configuration, customisation and distribution of PLM and CAD/CAM solutions. With this acquisition, Nuovamacut further strengthened its leadership in the PLM and CAD/CAM solutions market, enabling it to cover all product development processes for both small and large enterprises.

**TechMass S.r.l.**
At the end of September 2019, TeamSystem S.p.A. acquired a 51% controlling interest in TechMass S.r.l., a software house engaged in software development and the digitalisation of production processes. With this acquisition, the Group has further strengthened its product range dedicated to digital transformation.

**BK Service S.r.l.**
In December, TeamSystem Service S.r.l. acquired a 100% holding in BK Service S.r.l., which operates in the HR services industry (payroll and payroll processing and personnel administration and management). The transaction has enabled TeamSystem Service to expand its market share and its presence in Italy.

## ►ASSOCIATED COMPANIES

Key figures relating to associated companies are set out in the following table.

Amounts in Euro

| CONSOLIDATED COMPANIES EQUITY METHOD | Registered office | Share capital | Equity | Profit (Loss) | Currency | % held | % consolidation | Notes |
|---|---|---|---|---|---|---|---|---|
| Esaedro S.r.l. | Parma | 20,800 | 245,740 | 111,078 | EUR | 40.00 | 40.00 | 7 |
| INTIT S.r.l. | Frosinone | 20,800 | 459,668 | 49,901 | EUR | 35.00 | 35.00 | 7 |
| Cesaco S.r.l. | Vicenza | 90,000 | 174,614 | 23,069 | EUR | 48.00 | 48.00 | 8 |

**(7) =the amounts relate to the financial statements for the year ended 31 December 2018;**
**(8) =the amounts relate to the financial statements for the year ended 31 December 2017;**

A summary is provided below of balances at 31 December 2019 with associated companies and transactions therewith in the year then ended.

| | Trade and Other receivables | Financial receivables | 31 Dec 2019 | Trade and Other payables | Financial liabilities | 31 Dec 2019 |
|---|---|---|---|---|---|---|
| **INVESTMENTS IN ASSOCIATES** | | | | | | |
| Esaedro S.r.l. | 330 | | **330** | 4 | | **4** |
| INTIT S.r.l. | 127 | | **127** | 1 | | **1** |
| Cesaco S.r.l. | | | **0** | 7 | | **7** |
| **Total** | **457** | **0** | **457** | **11** | **0** | **11** |

| | Total Revenues | Finance income | 31 Dec 2019 |
|---|---|---|---|
| **INVESTMENTS IN ASSOCIATES** | | | |
| Esaedro S.r.l. | 1,079 | | **1,079** |
| INTIT S.r.l. | 0 | | **0** |
| Cesaco S.r.l. | | | **0** |
| **Total** | **1,079** | **0** | **1,079** |

| | Operating costs | Other provisions | Finance cost | Income taxes | 31 Dec 2019 |
|---|---|---|---|---|---|
| **INVESTMENTS IN ASSOCIATES** | | | | | |
| Esaedro S.r.l. | 164 | | | | **164** |
| INTIT S.r.l. | 93 | | | | **93** |
| Cesaco S.r.l. | 6 | | | | **6** |
| **Total** | **262** | **0** | **0** | **0** | **262** |

□ □ □

## ►RELATED COMPANIES

The company and TeamSystem Group have not been party to any transactions with related companies that merit disclosure, other than those previously commented upon.

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## ►REGISTERED OFFICE, ADMINISTRATIVE OFFICES, ANCILLARY ESTABLISHMENTS AND OTHER CORPORATE INFORMATION

Set out below are TeamSystem S.p.A.'s various premises:

- registered and administrative offices: Via Sandro Pertini 88, Pesaro (PU);

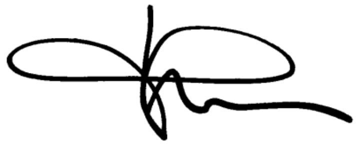
TeamSystem Holding S.p.A.'s tax code is as follows: 09290340968.
TeamSystem Holding S.p.A. is registered with the Pesaro Chamber of Commerce (registration No. 196739).

The consolidated and separate financial statements of TeamSystem Holding S.p.A. for the year ended 31 December 2019 have been audited by Deloitte & Touche S.p.A.

□ □ □

**Milan, 3 March 2020**

**On behalf of the Board of Directors of**
**TeamSystem Holding S.p.A.**
**Managing Director**
**Federico Leproux**



# TeamSystem Holding S.p.A.
# and subsidiaries
# TeamSystem Group

## CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2019

**Euro thousands**

| **CONSOLIDATED STATEMENT OF PROFIT OR LOSS** | **31 Dec 2019** | **31 Dec 2018** | **NOTES** |
|---|---|---|---|
| Revenue | 373,016 | 334,378 | **1 / 2** |
| Other operating income | 3,434 | 2,026 | **1 / 2** |
| **TOTAL REVENUE** | **376,450** | **336,404** | **1 / 2** |
| Cost of raw and other materials | (29,143) | (28,339) | **3** |
| Cost of services | (90,454) | (88,366) | **4** |
| Personnel costs | (110,738) | (104,975) | **5** |
| Other operating costs | (5,323) | (4,043) | **6** |
| Depreciation and amortization of non current assets | (84,641) | (83,040) | **11 / 12 / 13** |
| Allowance for bad debts | (4,832) | (5,131) | **20** |
| Other provisions for risks and charges | (4,360) | (7,020) | **25** |
| **OPERATING RESULT** | **46,959** | **15,490** | |
| Share of Profit (Loss) of associates | 0 | 40 | |
| Finance income | 1,421 | 16,285 | **7** |
| Finance cost | (85,742) | (105,688) | **8** |
| **PROFIT (LOSS) BEFORE INCOME TAXES** | **(37,362)** | **(73,872)** | |
| Current income tax | (12,481) | 957 | **9** |
| Deferred income tax | 14,568 | 16,956 | **9** |
| **TOTAL INCOME TAX** | **2,087** | **17,913** | |
| **PROFIT (LOSS) FOR THE YEAR** | **(35,275)** | **(55,960)** | |
| **(Profit) Loss for the year - Non controlling interests** | **(71)** | **(70)** | |
| **PROFIT (LOSS) FOR THE YEAR - OWNERS OF THE COMPANY** | **(35,346)** | **(56,030)** | |

Euro thousands

| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 31 Dec 2019 | 31 Dec 2018 | NOTES |
|---|---|---|---|
| **PROFIT (LOSS) FOR THE YEAR** | **(35,275)** | **(55,960)** | |
| Actuarial evaluation of Staff leaving indemnity | (1,414) | 901 | **24** |
| Other movements | 0 | 0 | |
| Tax effect | 339 | (216) | **24** |
| **ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS NET OF TAX** | **(1,074)** | **685** | |
| Exchange rate differences | 8 | (1) | |
| **ITEMS THAT WILL BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS NET OF TAX** | **8** | **(1)** | |
| **TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR** | **(36,342)** | **(55,276)** | |
| Total comprehensive (income) loss for the year attributable to Non controlling interests | (71) | (70) | |
| **TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR - OWNERS OF THE COMPANY** | **(36,413)** | **(55,346)** | |

Euro thousands

| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | | | |
|---|---|---|---|
| **ASSETS** | **31 Dec 2019** | **31 Dec 2018** | **NOTES** |
| Tangible assets | 15,139 | 15,326 | **11** |
| Intangible assets | 641,985 | 681,539 | **12** |
| Right of use | 22,987 | 23,895 | **13** |
| Goodwill | 734,258 | 707,681 | **14** |
| Other Investments | 308 | 449 | **16** |
| Investments in associates | 129 | 133 | **16** |
| Deferred tax assets | 14,760 | 15,342 | **17** |
| Financing fees prepayments - non current | 701 | 1,112 | **18** |
| Other financial assets - non current | 0 | 50 | **18** |
| **TOTAL NON CURRENT ASSETS** | **1,430,266** | **1,445,528** | |
| Inventories | 845 | 1,067 | **19** |
| Trade receivables | 122,474 | 128,941 | **20** |
| Tax receivables | 3,847 | 10,944 | **21** |
| Other receivables - current | 30,395 | 24,847 | **22** |
| Financing Fees prepayments - current | 413 | 413 | **18** |
| Other financial assets - current | 72 | 138 | **18** |
| Cash and bank balances | 36,412 | 24,574 | **18** |
| **TOTAL CURRENT ASSETS** | **194,458** | **190,925** | |
| **TOTAL ASSETS** | **1,624,724** | **1,636,452** | |

Euro thousands

| CONSOLIDATED STATEMENT OF FINANCIAL POSITION | | | |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | **31 Dec 2019** | **31 Dec 2018** | **NOTES** |
| Share capital | 5,450 | 5,450 | **23** |
| Other reserves | 395,194 | 500,291 | **23** |
| Profit (Loss) attributable to Owners of the Company | (35,346) | (56,030) | **23** |
| **TOTAL EQUITY attributable to OWNERS OF THE COMPANY** | **365,298** | **449,711** | |
| Non controlling interests - Capital and reserves | 465 | 394 | **23** |
| Non controlling interests - Profit (Loss) | 71 | 70 | **23** |
| **TOTAL NON CONTROLLING INTERESTS** | **536** | **464** | |
| **TOTAL EQUITY** | **365,834** | **450,175** | |
| Financial liabilities with banks and other institutions - non current | 884,518 | 840,728 | **18** |
| Staff leaving indemnity | 17,338 | 14,892 | **24** |
| Provisions for risks and charges | 8,595 | 9,280 | **25** |
| Deferred tax liabilities | 168,958 | 182,018 | **17** |
| Other liabilities - non current | 523 | 574 | **27** |
| **TOTAL NON CURRENT LIABILITIES** | **1,079,932** | **1,047,491** | |
| Financial liabilities with banks and other institutions - current | 27,150 | 11,307 | **18** |
| Trade payables | 47,692 | 38,928 | |
| Tax liabilities - current | 3,656 | 2,315 | **26** |
| Other liabilities - current | 100,461 | 86,235 | **27** |
| **TOTAL CURRENT LIABILITIES** | **178,958** | **138,786** | |
| **TOTAL LIABILITIES** | **1,258,890** | **1,186,277** | |
| **TOTAL EQUITY AND LIABILITIES** | **1,624,724** | **1,636,452** | |

**Euro thousands**

| **CONSOLIDATED STATEMENT OF CASH FLOWS** | **31 Dec 2019** | **31 Dec 2018** | **NOTES** |
|---|---|---|---|
| **Operating Result** | **46,959** | **15,490** | |
| Depreciation and amortisation of non-current assets | 84,641 | 83,040 | |
| **Depreciation and amortisation of non-current assets** | **84,641** | **83,040** | |
| Trade receivables | 11,874 | (6,830) | |
| Inventories | 227 | 495 | |
| Other receivables | (6,969) | (7,104) | |
| Trade payables | 6,039 | (819) | |
| Other liabilities | 10,057 | 21,028 | |
| **Change in Working capital** | **21,227** | **6,769** | |
| Staff leaving indemnity | (448) | (1,804) | |
| Provisions for risks and charges | (995) | (280) | |
| **Change in provisions** | **(1,443)** | **(2,085)** | |
| **Income tax paid** | **(3,894)** | **(3,395)** | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | **147,490** | **99,819** | |
| Investments in tangible assets | (3,005) | (3,177) | |
| Investments in intangible assets | (12,307) | (12,081) | |
| Capitalized development costs - personnel costs | (11,882) | (11,696) | |
| Capitalized development costs - service costs | (2,447) | (2,190) | |
| **Capital Expenditure** | **(29,642)** | **(29,144)** | |
| Acquisition of investments | (19,785) | (4,150) | **10** |
| Cash and bank balances at the date of acquisition | 7,957 | 13 | |
| **Acquisition of investments** | **(11,828)** | **(4,137)** | |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | **(41,470)** | **(33,281)** | |
| **Financial balance paid / cashed-in and change in financial assets / liabilities** | **(40,136)** | **(28,919)** | **10** |
| **Financing Fees paid** | **0** | **(15,443)** | **10** |
| **Liabilities to non-controlling shareholders paid** | **(6,039)** | **(13,802)** | **10** |
| **Distribution of reserves** | **(48,000)** | **(58)** | |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | **(94,175)** | **(58,222)** | |
| **INCREASE (DECREASE) IN CASH AND BANK BALANCES DUE TO EXCHANGE RATE MOVEMENTS** | **(7)** | **(2)** | |
| **INCREASE (DECREASE) IN CASH AND BANK BALANCES** | **11,837** | **8,315** | |
| **CASH AND BANK BALANCES - BEGINNING OF THE YEAR** | **24,574** | **16,259** | |
| **CASH AND BANK BALANCES - END OF THE YEAR** | **36,412** | **24,574** | |

# STATEMENT OF CHANGES IN EQUITY

| | Share capital | Other reserves | Other Profit (Loss) net of income taxes | Retained earnings (accumulated losses) | Profit (Loss) attributable to Owners of the Company | Equity attributable to Owners of the Company | Non controlling interests | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2017** | **5,450** | **559,754** | **(826)** | **0** | **(57,134)** | **507,244** | **1,023** | **508,267** |
| IFRS 9 / 15 / 16 - first adoption | | (405) | | | | **(405)** | | **(405)** |
| Profit (Loss) allocation | | (57,134) | | | 57,134 | **0** | | **0** |
| Change in Non controlling interests IFRS 3 | | (1,782) | | | | **(1,782)** | (570) | **(2,352)** |
| Dividends | | | | | | **0** | (58) | **(58)** |
| Profit (Loss) for the year | | | | | (56,030) | **(56,030)** | 70 | **(55,959)** |
| Other Profit (Loss) on comprehensive income | | 684 | | | | **684** | | **684** |
| **31 Dec 2018** | **5,450** | **501,117** | **(826)** | **0** | **(56,030)** | **449,711** | **464** | **450,175** |

| | Share capital | Other reserves | Other Profit (Loss) net of income taxes | Retained earnings (accumulated losses) | Profit (Loss) attributable to Owners of the Company | Equity attributable to Owners of the Company | Non controlling interests | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2018** | **5,450** | **501,117** | **(826)** | **0** | **(56,030)** | **449,711** | **464** | **450,175** |
| Profit (Loss) allocation | | (56,030) | | | 56,030 | **0** | | **0** |
| TeamSystem Holding S.p.A. distribution of reserves | | (48,000) | | | | **(48,000)** | | **(48,000)** |
| Profit (Loss) for the year | | | | | (35,346) | **(35,346)** | 71 | **(35,275)** |
| Other Profit (Loss) on comprehensive income | | (1,067) | | | | **(1,067)** | | **(1,067)** |
| **31 Dec 2019** | **5,450** | **396,020** | **(826)** | **0** | **(35,346)** | **365,298** | **536** | **365,835** |

# TeamSystem Group

## NOTES
## TO THE CONSOLIDATED FINANCIAL STATEMENTS
## FOR THE YEAR ENDED 31 DECEMBER 2019

**►COMPANY BACKGROUND**

TeamSystem Holding S.p.A. is a company registered with the Pesaro business register and it is domiciled in Italy with its registered office located in Pesaro. TeamSystem Holding S.p.A (the "Parent Company") is the parent company of TeamSystem Group (the "Group"), leader in Italy in the production and marketing of management software and in the provision of training targeted at Associations, small and medium-sized enterprises and Professionals (accountants, labour consultants, lawyers, condominium managers and self-employed professionals). Effective 2019, via the incorporation and acquisition of financial companies, the Group has extended its range of services to encompass financial services.

The company is a 100% directly held subsidiary of Barolo Lux 1 S.à.r.l., it is an approximately 87.89% indirectly held subsidiary of the private equity firm Hellman & Friedman ("H&F") and is approximately 8.54% held by the private equity firm HG Capital, with the remainder held by TeamSystem's senior and middle managers (3.57%).

The consolidated financial statements were approved by the Board of Directors on 3 March 2020.

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**►ACCOUNTING STANDARDS ADOPTED**

TeamSystem Holding S.p.A. has adopted International Financial Reporting Standards as endorsed by the European Commission (hereinafter "IFRS") for the preparation of its consolidated financial statements pursuant to the provisions of articles 3 and 4 of Legislative Decree 38 of 28 February 2005, which governs in Italy the exercise of options provided for by article 5 of Community regulations 1606/2002 concerning IFRS.

IFRS is intended to mean all "International Financial Reporting Standards", all International Accounting Standards ("IAS"), all the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), previously known as Standing Interpretations Committee ("SIC") endorsed by the European Commission at the date of approval of the draft consolidated financial statements by the Parent Company's Board of Directors and covered by EU Regulations published at that date.

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and liabilities arising from put options on non-controlling interests not yet exercised, which, if and when present, have been measured at fair value at the end of each reporting period.

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**►GOING CONCERN BASIS**

TeamSystem Group's consolidated financial statements have been prepared on a going concern basis and the Directors are not aware of any material uncertainties or doubts concerning the Group's ability to continue its activities in the foreseeable future.

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## ►CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements include:

1. **A consolidated statement of profit or loss** for the year ended 31 December 2019. In particular, it should be noted that the consolidated statement of profit or loss format presents an analysis of costs aggregated by nature, since this classification is considered to be more relevant for the purposes of an understanding of TeamSystem Group's results. Moreover, since no discontinued or similar operations occurred in 2019 or 2018, profit (loss) for the year is derived solely from continuing operations; consequently, the Group has not presented profit (loss) for the year from continuing operations since, as indicated, this coincides with profit (loss) for the year.

2. **A consolidated statement of comprehensive income** for the year ended 31 December 2019. In fact, IAS 1 requires that the statement of changes in equity has to evidence only changes generated by transactions with shareholders along with comprehensive income as defined below. The statement of comprehensive income begins with the profit or loss for the year followed by a section on other components of comprehensive income recognised directly in equity and then comprehensive income for the year, being the total profit (loss) for the year and other components of comprehensive income. The other comprehensive income section presents revenue and expense line items grouped between those items that will not be reclassified to profit and loss in subsequent periods and those that, on the fulfilment of certain predetermined conditions envisaged by the pertinent IAS/IFRS, will be reclassified to profit and loss.

3. **A consolidated statement of financial position** at 31 December 2019. In particular, the statement of financial position has been prepared using a format, in accordance with IAS 1, classified on the basis of the operating cycle, with a distinction between current and non-current components. On the basis of this distinction, assets and liabilities are considered to be current, if it is expected that they will be realised or settled during the normal operating cycle.

4. **A consolidated statement of cash flows** for the year ended 31 December 2019. The statement of cash flows is presented using the indirect method starting with the operating result, as permitted by IAS 7, under which profit or loss for the year is adjusted for the effects of non-cash transactions, such as those arising from deferrals or allocations to provisions linked to previous or future costs and payments.

5. **A consolidated statement of changes in equity** for the year ended 31 December 2019.

6. **Notes** to the consolidated financial statements.

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## ►SCOPE OF CONSOLIDATION

The consolidated financial statements of TeamSystem Group include the financial statements of the Parent Company, of the main subsidiary TeamSystem S.p.A. and of other companies in which TeamSystem Holding S.p.A. has a controlling interest in accordance with IFRS 10.

A listing of entities consolidated on a line-by-line basis is provided in the following table, whereby the percentage consolidated takes account of any put and call options entered into in connection with acquisitions (the "% held" column indicates the percentage held by the Group in the company in question at the reporting date without taking account of the put and call option agreements):

**Amounts in Euro**

| **CONSOLIDATED COMPANIES LINE BY LINE** | **Registered office** | **Share capital** | **Equity** | **Profit (Loss)** | **Currency** | **% held** | **% consolidation** | **Notes** |
|---|---|---|---|---|---|---|---|---|
| TeamSystem Holding S.p.A. | Pesaro | 5,450,000 | 643,684,859 | 48,680,381 | EUR | | | |
| TeamSystem S.p.A. | Pesaro | 24,000,000 | 343,792,183 | (28,432,210) | EUR | 100.00 | 100.00 | |
| TeamSystem Service S.r.l. | Campobasso | 200,000 | 16,631,137 | 9,910,059 | EUR | 100.00 | 100.00 | |
| TeamSystem Communication S.r.l. | Civitanova Marche (MC) | 23,300 | 116,787 | 7,618 | EUR | 60.00 | 100.00 | **1** |
| Danea Soft S.r.l. | Vigonza (PD) | 100,000 | 17,495,035 | 9,290,311 | EUR | 70.00 | 100.00 | **1** |
| Madbit Entertainment S.r.l. | Treviolo (BG) | 10,000 | 10,081,679 | 8,000,481 | EUR | 51.00 | 100.00 | **1 / 2** |
| MMDATA S.r.l. | Rome | 10,000 | 10,081,679 | 8,000,481 | EUR | 100.00 | 100.00 | **2** |
| Mondora S.r.l. | Milan | 105,000 | 2,606,416 | 574,176 | EUR | 100.00 | 100.00 | |
| Voispeed Limited | Saint Albans - UK | 1,000 | 100,682 | 886 | GBP | 85.00 | 85.00 | **3** |
| Aliaslab S.p.A. | Milan | 156,000 | 25,569,195 | 5,363,729 | EUR | 51.00 | 100.00 | **1** |
| Reviso International ApS | Copenhagen | 50,011 | (7,146,999) | (9,415,489) | DKK | 100.00 | 100.00 | |
| Reviso Cloud Accounting Limited | Reading | 1 | 19,921 | 5,794 | GBP | 100.00 | 100.00 | **4** |
| Reviso Soluciones Cloud S.L. | Madrid | 3,000 | 16,822 | 6,416 | EUR | 100.00 | 100.00 | **4** |
| Reviso Deutschland GmbH | Berlin | 25,000 | (35,494) | (33,677) | EUR | 100.00 | 100.00 | **4** |
| Evols S.r.l. | Catania | 887,000 | 1,393,340 | 173,058 | EUR | 51.00 | 100.00 | **1** |
| Netlex S.r.l. | Velletri (RM) | 12,500 | 576,557 | 186,738 | EUR | 51.00 | 100.00 | **1** |
| Cassanova S.r.l | Santarcangelo di Romagna (RN) | 10,000 | 769,362 | 22,923 | EUR | 51.00 | 100.00 | **1** |
| Evolution Fit S.r.l. | Turin | 10,000 | 328,130 | 313,793 | EUR | 51.00 | 100.00 | **1** |
| TeamSystem Active S.r.l. | Pesaro | 15,000 | 91,043 | 19,083 | EUR | 100.00 | 100.00 | |
| Gruppo Euroconference S.p.A. | Verona | 300,000 | 15,632,237 | 2,428,765 | EUR | 96.87 | 96.87 | **5** |
| Nuovamacut Automazione S.p.A. | Bologna | 108,000 | 18,543,505 | 4,864,426 | EUR | 100.00 | 100.00 | |
| TeamSystem 4 S.r.l. | Pesaro | 50,000 | 91,405 | 30,953 | EUR | 100.00 | 100.00 | |
| Skylab Italia S.r.l. | Turin | 143,600 | 6,181,342 | 1,338,020 | EUR | 60.00 | 100.00 | **1** |
| Gi.Esse Macchine Utensili S.r.l. | Assago (MI) | 100,000 | 1,327,552 | 133,110 | EUR | 100.00 | 100.00 | **6** |
| Iperelle S.r.l. | Brescia | 50,000 | 1,784,857 | 46,270 | EUR | 100.00 | 100.00 | **6** |
| Iperelle Edist Torino S.r.l. | Grugliasco (TO) | 100,000 | 322,963 | 11,544 | EUR | 100.00 | 100.00 | **7** |
| Reway S.r.l. | Monza (MB) | 10,000 | 143,756 | 8,105 | EUR | 100.00 | 100.00 | **7** |
| Techmass S.r.l. | Bassano del Grappa (VI) | 11,538 | 284,172 | 96,116 | EUR | 51.00 | 100.00 | **1** |
| BK Service S.r.l. | Rome | 1,010,000 | 5,510,000 | 0 | EUR | 80.00 | 100.00 | **8** |
| TeamSystem Financial Value Chain S.r.l. | Milan | 4,931,373 | 13,569,463 | (156,028) | EUR | 51.00 | 100.00 | **1** |
| Whit-e S.r.l. | Milan | 15,000 | 1,086,391 | 428,585 | EUR | 100.00 | 100.00 | **9** |
| Factor@Work S.r.l. | Milan | 65,000 | 188,985 | (395,660) | EUR | 100.00 | 100.00 | **9** |
| TeamSystem AM Holdco S.r.l. | Milan | 10,000 | 499,644 | (10,356) | EUR | 51.00 | 100.00 | **1 / 9** |
| TeamSystem Capital at Work SGR S.p.A. | Milan | 100,000 | 469,620 | (130,380) | EUR | 100.00 | 100.00 | **10** |
| TeamSystem Payments Holdco S.r.l. | Milan | 10,000 | 477,670 | (7,330) | EUR | 100.00 | 100.00 | |
| TeamSystem Payments S.r.l. | Milan | 125,000 | 24,733 | (450,267) | EUR | 100.00 | 100.00 | **11** |

**Amounts in Euro**

| **CONSOLIDATED COMPANIES EQUITY METHOD** | **Registered office** | **Share capital** | **Equity** | **Profit (Loss)** | **Currency** | **% held** | **% consolidation** | **Notes** |
|---|---|---|---|---|---|---|---|---|
| Esaedro S.r.l. | Parma | 20,800 | 245,740 | 111,078 | EUR | 40.00 | 40.00 | **12** |
| INTIT S.r.l. | Frosinone | 20,800 | 459,668 | 49,901 | EUR | 35.00 | 35.00 | **12** |
| Cesaco S.r.l. | Vicenza | 90,000 | 174,614 | 23,069 | EUR | 48.00 | 48.00 | **13** |

**1 = equity interest would be 100% should PUT/CALL option be exercised;**
**2 = investment held by Danea Soft S.r.l.;**
**3 = investment held by TeamSystem Communication S.r.l.;**
**4 = investment held by Reviso International ApS;**
**5 = takes account of treasury shares held by Gruppo Euroconference;**
**6 = investment held by Nuovamacut Automazione S.p.A.;**
**7 = investment held by Iperelle S.r.l.;**
**8 = investment held by TeamSystem Service S.r.l.;**
**9 = investment held by TeamSystem Financial Value Chain S.r.l.;**
**10 = investment held by TeamSystem AM Holdco S.r.l.;**
**11 = investment held by TeamSystem Payments Holdco S.r.l.;**
**12 = the amounts relate to the financial statements for the year ended 31 December 2018;**
**13 = the amounts relate to the financial statements for the year ended 31 December 2017.**

With regards to companies in which the Group no longer holds a 50% interest, and, consequently, holds the same percentage of voting rights exercisable at general meetings, it has been deemed that control does not exist on account of the fact that the Group i) does not have power over the investee, being the ability to direct the relevant activities that significantly affect the Group's returns, ii) is not exposed to variable returns from its involvement therewith and, accordingly, iii) does not have power to obtain benefits from its activities, as laid down by IFRS 10 – Consolidated financial statements. With regards to companies in which the Group holds an interest in excess of 20% (but less than 50%), it has significant influence thereover and, accordingly, such investments are recognised by using the equity method.

**Changes to the scope of consolidation during the course of 2019**

The scope of consolidation changed during the course of 2019 due to the effect of the following transactions:

- At the end of February 2019, TeamSystem S.p.A. set up a subsidiary company called TeamSystem Financial Value Chain S.r.l. in which it has retained a controlling interest of 51% (put and call option agreements have been entered into with respect to the remaining 49% interest). TeamSystem Financial Value Chain S.r.l. will become TeamSystem Group's centre of excellence for financial services, a new sector that the Group has targeted for future development.
- In March 2019, TeamSystem Group acquired Factor@Work S.r.l. and Whit-e S.r.l. The former offers portfolio management services to investors, while the latter is a leading provider of platforms and technological solutions for invoice trading. Both companies are fully held by TeamSystem Financial Value Chain S.r.l., a new company specifically incorporated by TeamSystem S.p.A. in 2019 (see above).
- In May 2019, TeamSystem Financial Value Chain S.r.l. set up a subsidiary company called TeamSystem AM Holdco S.r.l., in which it holds an interest of 51% (put and call option agreements have been entered into with respect to the remaining 49% interest). Then, in September 2019, TeamSystem AM Holdco S.r.l. set up a subsidiary company called TeamSystem Capital at Work SGR S.p.A.

- With the aim of optimising its organisational structure, in March 2019, TeamSystem S.p.A. set up a company called TeamSystem Payments Holdco S.r.l., in which it holds an interest of 100%. On 14 May 2019, TeamSystem Payments Holdco S.r.l. set up a company called TeamSystem Payments S.r.l., in which it holds an interest of 100%.
- In April 2019, TeamSystem S.p.A. acquired a 60% interest in Skylab Italia S.r.l., a company specialised in cloud solutions for personnel management. This acquisition will allow TeamSystem Group to expand its product portfolio, as well as to reinforce its competitive position in this target market.
- In July 2019, TeamSystem S.p.A. acquired a controlling interest (of 100%) in TeamSystem 4 S.r.l., which acts as a TeamSystem products dealer for its assigned territory.
- In September 2019, Nuovamacut S.p.A. acquired a 100% interest in Gi.esse Macchine Utensili S.r.l., a leading company in the purchase and sale of industrial machinery in the north of Italy, already synergically integrated with Nuovamacut Automazione S.p.A.
- At the end of September 2019, TeamSystem S.p.A. acquired a 51% controlling interest in TechMass S.r.l., a software house engaged in software development and the digitalisation of production processes. With this acquisition, the Group has further strengthened its product range dedicated to digital transformation (which facilitates a stronger link between manufacturing plants and management systems).
- At the end of October 2019, Nuovamacut Automazione S.p.A. acquired a 100% holding in Iperelle S.r.l., a company specialised in the configuration, customisation and distribution of PLM and CAD/CAM solutions. With this acquisition, Nuovamacut further strengthened its leadership in the PLM and CAD/CAM solutions market, enabling it to cover all product development processes for both small and large enterprises.
- In December 2019, TeamSystem Service S.r.l. acquired a 100% holding in a newly incorporated company called BK Service S.r.l., a company to which the sellers had transferred an HR services business that offers payroll and payroll processing and personnel administration and management services. The transaction has enabled TeamSystem Service to expand its market share and its presence in Italy.

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**► REFERENCE DATE**

The consolidated financial statements have been prepared based on the financial statements of the subsidiaries included in the scope of consolidation and as already approved by the respective Boards of Directors.

All the financial statements of the TeamSystem Group companies have a 31 December financial year end.

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**►BASIS OF CONSOLIDATION**

The financial statements used for the consolidation are the financial statements of the individual entities, as approved by the respective administrative bodies. These financial statements are reclassified and adjusted in order to comply with IFRS and the accounting policies adopted by the Parent Company.

In the preparation of the consolidated financial statements, assets and liabilities, income and costs and components of other comprehensive income of consolidated entities are consolidated line-by-line. Receivables and payables, income and charges and gains and losses originating from transactions between and among consolidated entities are eliminated. The carrying amount of consolidated equity investments is eliminated against the corresponding portion of equity attributable to the Group (or to non-controlling interest holders). Associated companies are carried under the equity method.

**Business combinations**

Acquired subsidiaries are accounted for in accordance with the acquisition method as provided for by IFRS 3. The cost of the acquisition is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, liabilities incurred or assumed and equity interest issued by the Group in exchange for control of the acquiree.

All other costs associated with a transaction are expensed.

Identifiable assets, liabilities and contingent liabilities of the businesses acquired, which meet the conditions for recognition under IFRS 3, are measured at their acquisition-date fair values, except for non-current assets (or disposal groups) classified as held for sale in accordance with IFRS 5 and which are recorded and measured in accordance with applicable accounting standards.

Goodwill is measured as the difference between the aggregate of the acquisition-date fair value of the consideration transferred, the amount of any non-controlling interest and the acquisition-date fair value of the acquirer's previously-held equity interest in the acquiree and the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If the value of the acquisition-date amounts of the assets acquired and the liabilities assumed exceeds the aggregate of the consideration transferred, the amount of any non-controlling interest and the fair value of the acquirer's previously-held equity interest in the acquiree, the surplus is recognised immediately in the income statement as income arising from the completed transaction.

In the event that it is only possible to make a preliminary determination of the fair value of the assets and liabilities at the acquisition date, the business combination shall be recognised using these preliminary amounts. Any adjustments arising from the final determination of the foregoing shall be recognised within twelve months of the acquisition and the related comparatives shall be restated.

Non-controlling interests at the acquisition date may be measured at fair value or at the non-controlling interest's proportionate share of net assets of the acquiree. The option is available on a transaction by transaction basis.

At the same time as the acquisition of majority / controlling stakes in an investee, TeamSystem Group normally enters into put and call option agreements for the residual stake held by the acquiree's non-controlling interest holders. For those cases where part of the acquisition takes place through the execution of a binding option agreement, with the simultaneous presence of put and call clauses, the investee is consolidated, since the substance of the binding option agreement is that of the payment of deferred consideration for part of the investee's capital, as evidenced by a series of transactions completed in the past. Accordingly, the estimated value of the exercise price of the put / call is included in the cost of acquisition and contributes to the overall determination of goodwill. This accounting method applies only where the Group has acquired majority control of the voting rights of the companies acquired. Concerning the recognition of goodwill related to these options, TeamSystem Group recognises as a financial liability the payable (so-called Liabilities to non-controlling shareholders) related to the estimated actual consideration for the exercise of the options. In accordance with this principle, subsequent changes in the fair value of the payable, due to amendments made to the initial assessment of the exercise consideration, are recognised in the consolidated income statement, as is the case for the notional charges deriving from the gradual decrease of the effect of discounting. In the absence of clear accounting rules for the recognition of non-controlling interests where put and call agreements exist, as well as on account of ongoing issues being debated by IFRIC and IASB, the Group has decided to use the accounting method described above that complies with the regulatory framework and current doctrine.

Any acquisitions of non-controlling interests subsequent to control having been achieved are accounted for as transactions between shareholders/quotaholders, with recognition of any difference between the amount paid and the carrying value of the non-controlling interest recorded in equity.

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## ►TRANSLATION OF FOREIGN CURRENCY FINANCIAL STATEMENTS

Assets and liabilities of consolidated foreign entities that are denominated in foreign currencies other than the Euro are translated at the rates of exchange prevailing at the reporting date; income and costs are translated at the average rates of exchange for the period. Any resulting translation differences are recognised in the foreign currency translation reserve included in equity.

The foreign companies included in the scope of consolidation at 31 December 2019 that use a currency other than the Euro are Voispeed Limited and Reviso Cloud Accounting Limited, which use the British Pound (GBP) and Reviso International ApS, which uses the Danish Krone (DKK) as their functional currencies.

The exchange rates applied for the translation are set out in the following table:

| EXCHANGE RATES | Average 2019 | Average 2018 | % | 31 Dec 2019 | 31 Dec 2018 | % |
|---|---|---|---|---|---|---|
| GBP | 0.87770 | 0.88471 | -0.8% | 0.85080 | 0.89453 | -4.9% |
| DKK | 7.46610 | 7.45320 | 0.2% | 7.47150 | 7.46730 | 0.1% |

□ □ □

## ►ACCOUNTING POLICIES

Set out below are the accounting policies adopted by the Group for the measurement of the components of the financial statements for the year ended 31 December 2019.

### Research and development expenses

In accordance with IAS 38, research expenses are charged to income as incurred.

Development costs incurred in relation to a determined project are capitalised only when the Group can demonstrate, by means of appropriate analysis, the technical feasibility of completing the intangible asset so that it will be available for use or sale, the intention to complete the intangible asset and use or sell it, how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development.

After initial recognition, development costs are carried at cost less any accumulated amortisation and any accumulated impairment losses. Amortisation begins when development is complete and the asset is available for use. It is amortised with reference to the period for which it is envisaged that the associated project will generate revenues for TeamSystem Group. During the period in which an asset is no longer in use, it is assessed annually to ascertain if there has been any impairment.

Other development expenses that do not meet the above requirements are expensed as incurred. Development costs that have previously been expensed are not accounted for as an asset in subsequent periods.

Capitalised development costs are amortised (as from the start of the production or marketing of the product) on a straight line basis over their residual useful life (estimated to be between 3 and 5 years).

### Customer relationship

Customer relationship represents the sum total of contractual (supply contracts and service contracts etc.) and non-contractual customer relationships and has been valued based on discounted income flows (Income Approach). Amortisation is recognised over the useful life of the asset, which is estimated to be twenty years (TeamSystem), fifteen years (Aliaslab) and ten years (TSS and ACG, companies that have been merged into TeamSystem and BK Service S.r.l.).

### Proprietary software

Proprietary software, which arose on recognition of the acquisition of TeamSystem Group that took place on 1 March 2016 and of the acquisition of Aliaslab and Whit-e S.r.l., is stated at its reproduction cost and is amortised over the length of its expected useful life of five years.

Proprietary software developed internally and destined for internal use is capitalised at cost of production and is amortised over the length of its residual expected useful life of 5 years.

### Third party software licenced for internal use

Third party software licenced for internal use is stated at purchase cost and is amortised over the length of its residual estimated useful life of five years.

### Brands

The TeamSystem, Euroconference, ESA and Nuovamacut brands, which arose on recognition of the acquisition of TeamSystem Group that took place on 1 March 2016, have been measured in accordance with the relief from royalties method and are amortised over the length of their residual estimated useful life of twenty years (TeamSystem, Euroconference and Nuovamacut) or ten years (ESA).

### Goodwill

Goodwill is initially recognised at cost, represented by the excess value of the consideration transferred for the business combination over the fair value of the assets and liabilities acquired.
In accordance with applicable IFRSs, goodwill is not amortised, but is allocated to its respective Cash Generating Unit (hereinafter “CGU”) or groups of CGUs and subjected annually (or more frequently if determined events or changes in circumstances indicate the possibility that value has been impaired) to impairment testing in accordance with IAS 36 “Impairment of Assets”.

### Subsequent costs

Costs incurred subsequently on intangible assets are capitalised if they increase the future economic benefit of the specific capitalised asset.

**Amortisation**
Amortisation is charged systematically on a straight line basis over the asset's estimated useful life, except for intangible assets with an indefinite life (being solely goodwill) that are not amortised and are systematically assessed to verify the absence of impairment. Other intangible assets are amortised as from the time they become usable.

The estimated useful life of each main category is shown in the following table:

| | |
|---|---|
| **Goodwill** | Indefinite useful life |
| **Brands** | 10 - 20 years |
| **Customer relationship** | 10 - 20 years |
| **Proprietary software** | 5 years |
| **Development costs** | 3 - 5 years |

**Tangible fixed assets**
Tangible fixed assets, consisting mainly of land, buildings, electronic machines, furniture and fittings and general and specific plant are stated at purchase cost, net of accumulated depreciation and writedowns. Costs incurred subsequent to acquisition (repairs and maintenance costs and replacement costs) are recorded as part of the carrying value of an asset, or recognised as a separate asset, only when it is believed that it is probable that associated future economic benefits will be generated and that the cost of the asset can be measured in a reliable manner. Repairs and maintenance costs (or costs of replacements that do not have the above characteristics) are expensed in the year in which they are incurred. Tangible fixed assets are systematically depreciated each year at rates determined on the basis of the residual useful life of the asset.

Regardless of the depreciation already accounted for, in the event of impairment, an asset is written down accordingly. Gains and losses arising on disposal are determined by comparing the sales consideration to the net book value. The amount determined is recognised in profit or loss in the pertinent year.

Financial charges incurred for capital expenditure on an asset that necessarily takes a substantial period of time to get it ready for its intended use ("qualifying asset" in accordance with IAS 23 – Borrowing Costs) are capitalised and depreciated over the useful life of the asset class to which they relate. All other financial charges are expensed in the year they are incurred.

**Leases**
The Group assesses whether a contract is, or contains, a lease at the commencement date thereof. Based on IFRS 16, for all lease contracts (except for, as stated below, short-term leases and low-value assets) the Group:

a) recognises right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments. Right-of-use is presented in a separate line item in the consolidated statement of financial position known as "Right-of-use", whereas the lease liability is recognised in the line item "Financial liabilities with banks and other institutions";
b) recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss.
c) recognises the total amount paid as principal and interest arising from cash flows from financing activities in the consolidated statement of cash flows.

The lease liability is initially measured at the present value of future lease payments at the contract's commencement date, discounted at the rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used.

The incremental borrowing rate is defined as the rate of interest that a lessee would have to pay to borrow, over a similar term and with a similar security, the funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment. In particular, to estimate the incremental borrowing rate, the Group has taken as a reference the interest rate payable on comparable government bonds over the lease term as well as the credit spread associated with financing obtained and Notes issued by the Group.

The lease payments included in the measurement of the lease liability include:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives received.
- Amounts expected to be payable by the lessee under residual value guarantees.
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option.
- Payments of penalties for early termination of the lease, if the lease term reflects the lessee exercising an option to terminate the lease and the exercise thereof is reasonably certain.

Subsequent to initial recognition, the lease liability is measured on an amortised cost basis, while the carrying amount of the liability is increased to reflect interest thereon (using an effective interest method) and is reduced to reflect the lease payments made under the lease contract.
The Group remeasures its lease liability (and recognises an adjustment to the right-of-use asset) if:

- there is a change in the lease term or a change in the assessment of a purchase option; in this case, the lease liability is remeasured by discounting the new lease payments using a revised discount rate.
- there is a change in lease payments resulting from changes in an index or a rate or there is a change in amounts expected to be payable under residual value guarantees;
- lease modifications may also prompt remeasurement of the lease liability unless they are to be treated as separate leases, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

A right-of-use asset includes the amount of the initial measurement of the lease liability, any lease payments made at or before the contract's commencement date and any other initial direct costs. A right-of-use asset is recognised net of depreciation and any impairment losses.
A provision is recognised and measured in accordance with IAS 37 in the event that the Group incurs an obligation for the costs to be incurred in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. These costs are included as part of the cost of the right-of-use asset.
Right-of-use assets are depreciated on a systematic basis from the commencement date to the earlier of the end of the useful life of the underlying asset and the end of the lease term. If the lease contract transfers ownership of the underlying asset or the cost of the right-of-use asset reflects the Group's desire to exercise a purchase option, the right-of-use is depreciated by reference to its useful life. Depreciation starts on the lease's commencement date.
Right-of-use is presented in a separate line item in the consolidated statement of financial position.

The Group applies IAS 36 Impairment of Assets to determine whether a right-of-use asset is impaired.

As a practical expedient, IFRS 16 allows a lessee to elect not to separate lease components, by providing an option to account for each lease component and any associated non-lease components as a single lease component. The Group has not made use of this practical expedient.

For short-term leases with a lease term of 12 months or less and low-value assets, for which the value of underlying assets does not exceed approximately € 5 thousand, the Group has opted for the recognition of lease payments in profit or loss as permitted by IFRS 16. These costs are included in the consolidated statement of profit or loss within Other operating costs.

The main difference between IFRS 16 and IAS 17 regarding assets previously recognised as held under finance lease is the measurement of the residual value of guarantees made by the lessee to the lessor. IFRS 16 requires the Group to recognise in the measurement of its lease liability only the estimated residual value, rather than the maximum amount guaranteed as required by IAS 17.

**Writedowns (Impairment)**
At each reporting date, the Group verifies the existence of events or circumstances that call into question the recoverability of the carrying amount of tangible assets and intangible assets with a finite useful life and, in the presence of indicators of impairment, estimates the recoverable amount of the assets to determine whether any impairment exists. Intangible assets with an indefinite useful life, such as goodwill and intangible assets in process of formation, are not subject to amortisation, but are assessed annually to determine whether an asset may be impaired.

In accordance with applicable accounting standards, the assessment is performed by comparing the carrying amount to the estimated recoverable amount, represented by the higher of value in use or fair value less costs to sell. For the purposes of the above assessment, assets are grouped into the smallest identifiable unit for which Management is capable of separating the related cash inflows, which is the cash generating unit ("CGU"). The cash generating units are identified in a manner consistent with the Group's organisational and business structure, being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

If the recoverable amount of the asset or cash generating unit is lower than the net carrying amount, the asset is adjusted to take account of the impairment loss, which is recognised in the consolidated statement of profit as "Depreciation, amortisation and impairment". An impairment loss relating to a CGU is firstly allocated to goodwill and any residual amount is allocated to other assets.

**Investments in other companies**

In accordance with IFRS 9, investments in other entities classified as non-current assets are initially stated at purchase cost and are subsequently measured at fair value. On account of the specific investments recognised by the Group, as well as the low value thereof, it has been deemed that cost, written down for any impairment, represents an acceptable approximation of fair value and any differences are not significant for the correct presentation of the financial statements.

**Investments in associates**

An associate is an entity over which the Group has significant influence, but not control or joint control, by means of which it participates in the financial and operating policy decisions of the investee. The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale.

Under the equity method, investments in associates are recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the changes subsequent to acquisition in the net worth of the associate, net of any impairment of individual equity interests. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses, unless the Group has incurred an obligation to cover them.

**Inventories**

Inventories, which mainly include hardware and software licences purchased for resale, are stated at the lower of specific purchase cost, inclusive of ancillary charges, and estimated realisable value, which can be derived from market prices. Inventories of obsolete or slow moving items are written down by taking account of their potential use or realisation.

**Financial instruments**

These are the requirements under IFRS 9 for Financial instruments:

1) The classification and measurement of financial assets;
2) The classification and measurement of financial liabilities;
3) Impairment of financial assets, and;
4) Hedge accounting.

1) Classification and measurement of financial assets

The date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Group has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at the date of initial application.

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Specifically the debt instruments that are held within a business model whose objective is to hold financial assets to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequently at amortised cost.

Despite the aforegoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

- The Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination in other comprehensive income; and
- The Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

In the current year, the Group has not designated any investments in debt instruments that meet the amortised cost or FVTOCI criteria as measured at FVTPL.

When an investment in a debt instrument measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. On the other hand, when an equity investment designated as measured at FVTOCI is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings without going through profit or loss.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment. See (2) below.

The main financial assets held by the Group consist of trade receivables, the business model classification of which has not given rise to any changes in measurement. For this class of assets, changes arose, however, in the measurement of impairment.

2) Classification and measurement of financial liabilities
The application of IFRS 9 has not had any impact on the classification and measurement of the Group's financial liabilities, given that a significant change introduced by IFRS 9 in the classification and measurement of financial liabilities relating to the accounting for changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of the issuer, was not applicable.

3) Impairment of financial assets
In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the Group to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In relation to trade receivables and assets arising from contracts with customers, the Group has applied the simplified approach indicated by IFRS 9 for the measurement of the lifetime expected loss allowance. The Group computes the amount of expected credit losses in relation to these elements through the use of a provision matrix, estimated based on historical loss rates applied to trade receivable balances outstanding, adjusted to reflect current conditions and estimates of future economic conditions. Accordingly, the credit risk profile of these assets is presented grouped by ageing based on the provision matrix.

4) Accounting for hedging transactions.
The new hedge accounting requirements retain the three types of hedge accounting, i.e. fair value hedge, cash flow hedge and net investment hedge. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about the Group’s risk management activities have also been introduced.

The Group uses derivative financial instruments for economic hedging purposes in order to manage its exposure to risk arising from changes in interest rates. Despite such derivative financial instruments having been entered into solely for hedging purposes and that they could potentially qualify as cash flow hedges, the Group has decided not to exercise the option, provided for by IFRS 9, to use hedge accounting for the recognition of such instruments and, accordingly, recognises changes in fair value of these derivative financial in profit or loss.

**Trade receivables**
Receivables are recorded at transaction price as defined by IFRS 15, net of an allowance recognised to take account of their expected realisable value and that takes account of forecast expected credit losses as required by IFRS 9.

**Cash and bank balances**
Cash and bank balances include cash on hand and bank and post office account balances.

**Interest bearing financial liabilities**
Interest bearing financial liabilities are initially recorded at fair value, net of ancillary charges. Subsequent to their initial recognition, interest bearing financial liabilities are measured at amortised cost.

**Trade and other payables**
Trade and other payables are stated at cost, representing their settlement value.

**Foreign currency transactions**

The functional and presentation currency of the Group companies is the Euro. As required by IAS 21, amounts originally denominated in foreign currency are translated at exchange rates ruling at the year end. Exchange differences realised on the collection of foreign currency receivables and on the payment of foreign currency payables are recognised in the consolidated statement of profit or loss.

**Employee benefit plans**

**1. Defined contribution plans**

A defined contribution plan is a pension plan for which the Group pays fixed contributions to a separate entity. The Group does not have any obligation, legal or otherwise, to make additional contributions if the fund has insufficient assets to meet the payment of all employee benefits relating to the period of service. The obligations related to contributions for employees' pensions and other benefits are expensed as incurred.

**2. Defined benefit plans**

Net obligations related to defined benefit plans consist mainly of employee termination indemnities and are calculated by estimating, with actuarial techniques, the amount of the future benefit accrued to employees in the current and prior financial years. The benefit thus determined is discounted and recognised net of the fair value of any related assets. The computation is performed by an independent actuary using the projected unit credit method. Actuarial gains and losses are recognised in the statement of comprehensive income in the year in which they arise.

Following the introduction of new legislation on supplementary pensions, as per Legislative Decree 252/2005, introduced by the 2007 Finance Act, the possibility has arisen to transfer accruing severance indemnities to supplementary pension funds. Consequently, in the actuarial valuation of the Provision for staff leaving indemnity for employee termination indemnities at 31 December 2008, account was taken of the effects deriving from the legislation, recognising, for IAS/IFRS purposes, only the liability relating to accrued severance indemnities remaining as a balance sheet liability, as the amounts accruing are paid over to a separate entity (supplementary pension fund or the state fund INPS).

**Provisions for risks and charges**

Where the Group has an obligation, legal or otherwise, resulting from a prior event and it is probable that this will lead to the loss of economic benefits to meet the obligation, an appropriate provision for risks and charges is recorded. No provision is made for future operating losses. Provisions are measured at the present value of Management's best estimate of the cost of satisfying the obligation existing at the reporting date. With respect to legal cases, the amount of the provision is determined on the basis of estimates made by the relevant consolidated company, together with its legal advisors, in order to determine the probability, the timing and the amounts involved.

**Revenue**

Revenue recognition methods vary on account of the diverse nature of sales and the different revenue streams. Specifically:

***ERP and Business Management Software Solutions – Direct Channel***

Software licences: revenue from sales of software licenses is recognised when control is transferred to the customer on account of the fact that all contractual obligations have normally been fulfilled and there are no rights of return or acceptance clauses. In the event that a sale agreement provides for more than one revenue component, such as maintenance and support, the revenue arising from these components is separately identifiable in the agreement. Revenue relating to Lynfa and Lybera licences, which are mainly targeted at professionals, is recognised on a straight line basis over the term of the related maintenance and support fee, since, based on the analysis performed, a single underlying performance obligation has been identified and recognised.
With respect to “subscription” sales, the revenue, relating to the various fee instalment components, is recognised over the duration of the contract (usually twelve months), starting from when the control is transferred to the customer.

Maintenance and support: maintenance and support agreements, which include direct support, technical support and software updates, generally cover a twelve-month period and related revenue is recognised on a straight line basis over the contract term, with recognition of the revenue component pertaining to future years as deferred income. In the event that a maintenance holiday is provided for by the agreement, revenue for the twelve months is recognised over a period that takes account thereof.

Other services: revenue related to training, implementation and software customisation, whether covered by the main agreement or by subsequent agreements, is recognised based on the stage of completion of the services at the reporting date. Revenue related to ERP (Enterprise Resource Planning) implementation services still ongoing at the reporting date is recognised based on the percentage of completion of the services at that date, on the basis of the worked hours compared to the total estimated working hours.

***ERP and Business Management Software Solutions – Indirect Channel***

Maintenance and support and Licences: This revenue line consists of (i) VAR (value added reseller) agreements: these agreements generally cover a three-year period that grants VARs the right to download an unlimited number of software licenses and to receive software updates and system support services. Revenue arising from these agreements is invoiced on a quarterly or annual basis and is recognised on a straight line basis over the agreement term) and (ii) Software licences (revenue from sales of software not covered by VAR agreements is recognised when control is transferred, usually corresponding to the delivery date, on account of the fact that all contractual obligations have normally been fulfilled and there are no rights of return or acceptance clauses).

Other services: revenue from additional services and products offered to dealers, including training, marketing and manuals; revenue is normally recognised when the control is transferred to the customer, usually coinciding with when the service is performed or when the product has been delivered.

***Vertical Solutions***

Sales revenue from Vertical Solutions products and services is recognised based on the same criteria described previously for the *ERP and Business Management Software Solutions* and on whether the sales are made through the direct or indirect channel. Moreover, Vertical Solutions revenue includes sales related to:

- Publishing: revenue from the sale of books and electronic manuals is recognised when the control is transferred to the customer, usually corresponding to the delivery date.
- Training: revenue includes that generated by large conferences, masters and specialist training courses. Revenue is recognised based on services rendered in any given period; revenue from training that is ongoing at the reporting date is recognised based on the percentage of completion of the training services (on the basis of the worked hours compared to the total estimated working hours) in compliance with IFRS 15.

***Micro & New Business Solutions***

Sales revenue from Micro Solutions products and services is recognised based on the same criteria described previously for the *ERP and Business Management Software Solutions.*
Sales revenues from New Business Solutions products and services refers to recently established and acquired financial companies. Income and commissions are recognized when the service is performed.

***Hardware***

Revenue from the sale of hardware to third parties is recognised when the control is transferred to the customer, usually corresponding to the delivery date, on account of the fact that all contractual obligations have normally been fulfilled and there are no rights of return or acceptance clauses. Income pertaining to TeamSystem S.p.A., which arises from the outsourcing of this business, is recognised when the company is entitled thereto.

**Grants**

Government grants are recognised when there is reasonable certainty that they will be received and that all related conditions will be met. Government grants towards cost components are recognised as income, but are systematically allocated to the financial year, in order to match the costs they are intended to offset. For grants towards the cost of an asset, the asset and the grant are recognised at their nominal value and the release to income takes place gradually, on a straight line basis, over the expected useful life of the asset.
Where a non cash grant is received, the asset and the contribution are recognised at their nominal value and are released to income on a straight line basis over the expected useful life of the asset.

**Dividends**

The distribution of dividends to shareholders / quotaholders of the Group companies is recognised as a liability in the period in which they are approved by the general meeting of shareholders / quotaholders.

**Finance income and costs**

Finance income and costs are recognised in profit or loss on an accrual basis.

**Current and deferred taxation**

The tax charge for the year comprises current and deferred taxation. Current tax is recognised in the consolidated statement of profit or loss, except for cases where the tax relates to items accounted for as an equity component. Current tax is calculated by applying the tax rate in force at the reporting date to taxable income. Concerning IRES, it should be noted that the Parent Company and its subsidiaries have elected for a consolidated tax regime, with the Parent Company as tax consolidator.

Deferred tax is calculated, using the liability method, on temporary differences between the book and tax bases of assets and liabilities. Deferred tax is calculated as a function of the expected timing of the reversal of the temporary differences, using the tax rate in force at the date of the expected reversal. A deferred tax asset is recognised only where it is probable that sufficient taxable income will be generated in subsequent years for the recovery thereof.

**Lease of businesses**

During the course of 2018, the Group completed a series of transactions aimed at the outsourcing of the management of part of the Hardware and Delivery business (installation, paramaterisation and customisation of software) as well as the management of Customer Service.

***Hardware/Delivery***

Specifically, with regards to the Hardware and Delivery business, TeamSystem S.p.A. has entered into with various third party specialist operators (for both Hardware and Delivery – a further Delivery business agreement has also been executed by Esa Napoli S.r.l. with the same counterparty as TeamSystem S.p.A.) a series of outsourcing transactions, which have common features.

The common features of these transactions were: a) the identification of a business segment, consisting mainly of personnel with appropriate professional qualities, that has been outsourced; b) the lease of the aforementioned business to a third party specialist, via the execution of a two-year business lease agreement, c) the purchase of a put option with an agreed exercise price (except for one outsourcing transaction with a potential decrease in the exercise price in the event of the failure to achieve a revenue target). For the option, TeamSystem S.p.A. has to pay a deferred consideration essentially equating to the sum of the business lease instalments plus the exercise price for the option; d) a commitment to assume liability for amounts due to employees of the business segments that arose prior to the lease of the businesses in question; e) the simultaneous execution of a service agreement / commercial partnership agreements (with a duration in excess of the business lease agreement associated therewith) between TeamSystem S.p.A. and the lessee, concerning services related to the outsourced businesses.

Having analysed the contracts and the key aspects of the transactions entered into, these have been accounted for as follows:

- Lease of business: the business segment has passed under the control of the counterparty, at least for a period equating to the business lease term. The Group recognises the business lease instalments in profit or loss within Other operating income.
- Service agreement / commercial partnership agreements: the costs and revenue arising from the service agreement are recognised in profit or loss on an accrual basis. Most of the revenue arising from service contracts and that is recognised in profit or loss on an accrual basis within Revenue when the right to receive payment is established based on contractual provisions consists of consideration that is similar to commissions arising from a contractual relationship in which TeamSystem acts as an agent.

Consideration for put options, which was initially recognised as an asset within Other receivables, has been recognised as a finance cost, since it is attributable to lease contracts and underlying services, thus spreading the cost over the lease terms and matching it to the cash flow arising from the related instalments and the expected disposal prices.

***Customer Service***

As the result of the execution of a framework agreement with a customer service operator, effective 1 January 2018, TeamSystem S.p.A. transferred part of the customer service business, consisting mainly of specialised personnel, to a newly incorporated company (Comsyst S.r.l.), the controlling interest in which is held by the aforementioned customer service operator. As part of this transaction, TeamSystem S.p.A. entered into a ten-year service agreement with the above operator for the provision of customer care services. The agreement provides for incremental guaranteed minimums and requires the services to be performed by Comsyst. Moreover, for the reciprocal protection of the counterparties, the framework agreement has provided for the following options over the equity interests held thereby and an exercise price equating to the pro-rata share of Comsyst's equity: call option in favour of TeamSystem S.p.A. due to expire on 31 December 2018; call option in favour of TeamSystem S.p.A. exercisable between 1 January 2019 and 1 December 2028 in the event of termination of the service agreement; call option in favour of the counterparty exercisable in the period July-October 2019 and a put option in favour of TeamSystem S.p.A. exercisable in the period November-December 2019. This put option was exercised by TeamSystem at the end of 2019, while the service contract continues to be executive.

The Group has analysed the contracts underlying the above relationships and has concluded that for the 2018 financial year the investment in Comsyst is an investment in an associate, given that control thereover is held by the counterparty, which, in addition to holding an interest of 51%, is responsible for the organisation and development thereof. At the end of the 2019 financial year, with the exercise of the put by TeamSystem S.p.A., the connecting stake in Comsyst was therefore purchased by the Comsyst majority quotaholder.

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## ►EARNINGS PER SHARE

The Parent Company does not have any shares listed on regulated markets; accordingly, as permitted by IAS 33, no information on earnings per share has been disclosed in these notes.

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## ►SEGMENT INFORMATION

In accordance with IFRS 8, an operating segment is a component of an entity:
a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);
b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance;
c) for which discrete financial information is available.

During the course of 2019, TeamSystem Group completed its revision of its corporate reporting system that led to substantial changes to the format of internal reports reviewed periodically by Management with the definitive elimination of the breakdown at the level of the previously identified three operating segments: **Software Solutions, Cloud Software Solutions and Hardware.**
In fact, Group Management deemed it appropriate and necessary (in a technological context of a market characterised by continuous evolution) to review its reporting activities that, effective 2019, envisage one sole operating segment for reporting purposes, the **Software Business Unit**, in line with the new organisational and internal responsibility structure.

In fact, consistent with the Group's new strategic vision and on account of changed market conditions, whereby it is critical to continuously adjust to available technologies, TeamSystem Group has identified a new business direction and new organisational and reporting responsibilities that render the 3 historical operating segments (Software Solutions, Cloud Software Solutions and Hardware) increasingly less independent and significant for a presentation of the manner in which the Group's business is evolving.

Technological developments that are inevitably of interest to TeamSystem Group (on account of the industrial sector it pertains to) offer the Group's customers software solutions that may increasingly be accessed via Cloud technology and, thus, the previous presentation of the Group's business has become less significant on account of continuous migration to new technology. Moreover, following the outsourcing of hardware, which commenced in 2018 and was completed in the year just ended, responsibility for the former Hardware division has been reallocated within the sole segment, partly due to the ancillary and supportive nature that hardware products have in relation to the main software business in the new competitive and market environment.

For the above reasons, during the course of 2019, it became necessary to establish a new reporting model based on one sole operating segment for reporting purposes, namely the **Software Business Unit** as a whole, aligned and perfectly conforming to the current organisational and business structure, which better reflects the Group's operations today.

Note that, at 31 December 2019, the financial sector companies that were newly incorporated and newly acquired in 2019 do not meet the quantitative thresholds set out in the applicable accounting standard (IFRS 8.13) and, given their immateriality within the Group, no specific disclosures have been made at Group level. Related disclosures have thus been presented in the "**Other sectors**" category, separately from the other reconciling items within the reconciliations required by IFRS 8.23.

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## ►USE OF ESTIMATES

The preparation of consolidated financial statements requires the Group to apply accounting policies and methods, which, in certain circumstances, depend on difficult and subjective assessments that may be based on past experience and on assumptions that, from time to time, are considered reasonable and realistic based on relevant circumstances. The application of these estimates and assumptions affects the amounts presented in the consolidated financial statements, comprising the consolidated statement of financial position, the consolidated statement of profit or loss and consolidated statement of cash flows, as well as the disclosures provided. The actual amounts of the financial statement components, for which estimates and assumptions have been used, may differ from those reported, due to the uncertainty of assumptions and the conditions on which estimates are based. In particular, the uncertainty caused by the current economic

and financial crisis has led to the need to make difficult assumptions regarding future business performance as reflected in the Business Plan.
Set out below is a listing of consolidated financial statement components that, more than others, require greater subjectivity, on the part of the Group, in the application of estimates and, for which, a change in the conditions of underlying assumptions used may give rise to a significant risk in relation to the determination of adjustments to the carrying amounts of current assets and liabilities that may have a significant impact on the financial statements of the consolidated companies:

- Business combinations (IFRS 3) and measurement of assets acquired and liabilities assumed: the process of allocation of the cost of a transaction to the assets of TeamSystem Group following a business combination is based on estimates and assumptions derived from Management's professional judgement. Professional judgement is also used to determine the most appropriate methodologies for the measurement of assets acquired and liabilities assumed (including contingent assets and liabilities) and in certain cases provisional initial recognition has been opted for, as permitted by the applicable accounting standard.
- Goodwill and other intangible assets: goodwill and other intangible assets with an indefinite useful life (none of the latter existed as at the reporting date) are tested annually for impairment and during the course of the year if there is any indication thereof. Other intangible assets are tested annually for impairment when there are indications that the carrying amount may not be recovered. When value in use needs to be computed, the Directors estimate the cash flows expected from an asset or from the cash generating unit and choose a discount rate in order to calculate the present value of the cash flows. Accordingly, the impairment test for fixed assets is performed using forecasts, which are naturally subject to uncertainty, of cash flow included in business plans approved by the relevant Boards of Directors or in projections prepared by management of the Group companies in periods in which the business plan has not been updated for the insights needed to make strategic choices.
- Allowance for bad debts: the allowance for bad debts reflects Management's estimate of the losses pertaining to receivables due from end customers and the sales network. The estimate of the allowance for bad debts is based on losses expected to be incurred by the company (taking account of the requirements of the new IFRS 9), determined on the basis of past experience with similar receivables, on current and historical past due, on losses and payment collection and on careful monitoring of asset quality and forecasts of economic and market conditions.
- Provisions for risks and charges: these provisions relate to liabilities that are certain or probable, the amount of which has not been determined at the reporting date, but the cost of which, as required to meet the obligation, is capable of being reliably estimated by Management. They are recognised in the financial statements in the event of an existing legal or implicit obligation resulting from a prior event and it is probable that the Group will be required to meet the obligation. If the impact is significant, the provisions are measured at discounted present value.
- Employee benefits: the cost of employee benefit plans is determined using actuarial assessments. An actuarial assessment requires the application of assumptions with respect to discount rates, the expected yield from investments, future wage increases, mortality rates and future increases in pensions. Due to the long term nature of these plans, the estimates are subject to a significant degree of uncertainty.
- Liability to non-controlling shareholders: this represents the estimated liability with respect to put and call options or earn-out agreements relating to non-controlling interests in Group companies. This is accounted for at its estimated fair value, having applied various assumptions regarding the estimated indicators that form the basis for its computation and the expected timing of disbursements. The nominal value of the exercise price of the liability to non-controlling shareholders is then discounted at the reporting date by applying the relevant discount rate which is the same as that adopted for the cost of debt component in impairment tests.

**►ROUNDING**

The figures included in the consolidated financial statements and in the notes to the consolidated financial statements are expressed in thousands of Euros (except where otherwise indicated) since this is the currency used in the conduct of TeamSystem Group's operations.

Certain amounts reported in these consolidated financial statements, including financial information and certain operating data, have been subject to rounding adjustments due to the presentation of figures in thousands of Euros. Accordingly, in certain cases, the sum of the numbers in a column or a row in tables may not correspond exactly to the total figure given for that column or row.

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**►ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS APPLICABLE AS FROM 1 JANUARY 2019**

The following accounting standards, amendments and IFRS interpretations are applicable to the Group for the first time as from 1 January 2019:

- On 12 December 2017, the IASB issued "Annual Improvements to IFRSs: 2015-2017 Cycle", a collection of amendments to standards as part of the annual process of improvements thereto. The major amendments relate to:
    - Business Combinations and IFRS 11 Joint Arrangements: the amendments clarify that, when an entity obtains control of a business that is a joint operation, it should remeasure previously held interests in that business. This is not required, however, when an entity obtains joint control.
    - IAS 12 Income Taxes: the amendments clarify that the income tax consequences of dividends (including payments on financial instruments classified as equity) should be recognised consistently with the transactions that generated the distributable profits (in profit or loss, OCI or equity).
    - IAS 23 Borrowing costs: the amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings.

  The adoption of these amendments has had no material effect on the Group's consolidated financial statements.

- On 7 February 2018, the IASB issued "Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)". The document clarifies how an entity should recognise an amendment (i.e a curtailment or settlement) to a defined benefit plan. The amendments require an entity to update its assumptions and to remeasure the net liability or asset pertaining to the plan. The amendments clarify that, subsequent to the occurrence of such an event, an entity should use updated assumptions to measure current service cost and the net interest for the period after the remeasurement. The adoption of these amendments has had no material effect on the Group's consolidated financial statements.

- On 12 October 2017, the IASB issued "Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)". The amendments clarify the need to apply IFRS 9, including its impairment requirements, to long-term interests in an associate or joint venture to which the equity method is not applied. The adoption of these amendments has had no effect on the Group's consolidated financial statements.

- On 7 June 2017, the IASB issued "Uncertainty over Income tax Treatments (IFRIC Interpretation 23)". The interpretation addresses uncertainty over income tax treatments. Specifically, the interpretation requires an entity to analyse uncertain tax treatments (separately or together, depending on the characteristics thereof), assuming in all cases that a taxation authority will examine those amounts and will have full knowledge of all relevant information. If the entity concludes that it is not probable that the taxation authority will accept the tax treatment followed, the entity has to reflect the impact of the uncertainty in the measurement of its current and deferred taxation. Moreover, the interpretation does not contain any new disclosure obligation, but it emphasises that the entity must establish if there will be a need to provide information on considerations made by management and relating to the inherent uncertainty in accounting for taxation, in accordance with the requirements of IAS 1. The new interpretation has been applied as from 1 January 2019. The adoption of these amendments has had no material effect on the Group's consolidated financial statements.

- On 12 October 2017, the IASB issued amendments to IFRS 9 "Prepayment Features with Negative Compensation". The document clarifies that instruments that provide for early repayment may meet the solely payments of principal and interest (SPPI) test even in the event that the reasonable additional compensation payable upon early repayment would constitute negative compensation for the lender. The adoption of these amendments has had no effect on the Group's consolidated financial statements.

**►ACCOUNTING STANDARDS, AMENDMENTS AND IFRS AND IFRIC INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, BUT NOT YET MANDATORILY APPLICABLE AND NOT ADOPTED EARLY BY THE GROUP AT 31 DECEMBER 2019**

The Group has not applied the following new accounting standards and other amendments, which have been published, but the application of which is not yet mandatory:

- On 31 October 2018, the IASB issued “Definition of Material (Amendments to IAS 1 and IAS 8)”. The amendments introduced a change to the definition of “material” contained in IAS 1 – Presentation of Financial Statements and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The objective of the amendments is to make the definition of “material” more specific and they have introduced the concept of obscured information to stand alongside the concepts of omitted or misstated information included in both amended accounting standards. The amendments clarify that information is obscured if it is disclosed in a manner that would have a similar effect on the primary users of financial statements as omitted or misstated information. The amendments were endorsed on 29 November 2019 and are effective for all transactions subsequent to 1 January 2020. The directors do not believe that there will be any significant impact on the Group's consolidated financial statements as a result of the adoption of these amendments.

- On 29 March 2018, the IASB issued "Amendments to References to the Conceptual Framework in IFRS Standards". The amendments are effective for annual periods beginning on or after January 1, 2020, although early application is permitted.
  The Conceptual Framework sets out the fundamental concepts for financial reporting that guide the Board in developing IFRS Standards. It helps to ensure that the Standards are conceptually consistent and that similar transactions are treated the same way, so as to provide useful information for investors, lenders and other creditors.
  The Conceptual Framework also assists companies in developing accounting policies when no IFRS Standard applies to a particular transaction, and more broadly, helps stakeholders to understand and interpret the Standards.

- On 26 September 2019, the IASB published “Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform”. The amendments are to IFRS 9 - Financial Instruments, IAS 39 - Financial Instruments: Recognition and Measurement and IFRS 7 - Financial Instruments: Disclosures. In particular, the amendments modify some specific hedge accounting requirements to provide temporary relief therefrom, in order to mitigate the potential effects of the uncertainty caused by the IBOR reform (that is still ongoing) on future cash flows in the period prior to its completion. The amendments require companies to disclose additional information in their financial statements regarding their hedging relationships that are directly affected by the uncertainties generated by the reform and to which the aforementioned relief has been applied.
  The amendments are effective as from 1 January 2020, although early application is permitted. The directors do not believe that there will be any impact on the Group's consolidated financial statements as a result of the adoption of these amendments, on account of the fact that the Group does not apply hedge accounting to its exposure to interest rate fluctuations.

**►ACCOUNTING STANDARDS, AMENDMENTS AND IFRS INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION**

At the reference date of these consolidated financial statements, some amendments to IFRS 3 are still pending for approval (definition of "business" and introduction of an "concentration test", optional, which allows to exclude the presence of a business if the price paid is substantially referable to a single asset or group of assets) and to IFRS 10 and IAS 28 (in order to resolve the current conflict between IAS 28 and IFRS 10).
In addition, on May 18, 2017, the IASB published IFRS 17 - Insurance Contracts which is intended to replace IFRS 4 - Insurance Contracts. The objective of the new standard is to ensure that an entity provides relevant information that faithfully represents the rights and obligations arising from the insurance contracts issued.

Based on the information currently available, no significant impacts are expected for the Group.

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# Notes to the consolidated financial statements

**(All amounts are expressed in thousands of Euro, except where otherwise indicated)**

## 1. TOTAL REVENUE

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Hardware | 7,676 | 6,683 | 993 | 14.9% |
| Software | 49,037 | 54,507 | (5,469) | -10.0% |
| Hardware subscriptions | 2,305 | 2,338 | (33) | -1.4% |
| Software subscriptions | 257,571 | 198,202 | 59,369 | 30.0% |
| Other products | 1,711 | 1,642 | 68 | 4.2% |
| Other services | 42,308 | 58,365 | (16,056) | -27.5% |
| Education | 12,549 | 12,736 | (187) | -1.5% |
| Discount Paid | (141) | (95) | (46) | 48.7% |
| **Revenue** | **373,016** | **334,378** | **38,638** | **11.6%** |
| Other income | 3,080 | 1,705 | 1,375 | 80.7% |
| Operating grants | 353 | 321 | 32 | 9.9% |
| **Other operating income** | **3,434** | **2,026** | **1,407** | **69.4%** |
| **Total Revenue** | **376,450** | **336,404** | **40,046** | **11.9%** |

Total revenue for the year ended 31 December 2019 came to € 376,450 thousand and increased in the year due, specifically, to the Group's organic growth, as well to a sharp increase in sales of products linked to electronic invoicing which became mandatory as of 1 January 2019 for all businesses and professionals with a VAT number.
The main components are the following:

- Hardware (€ 7,676 thousand), relating to sales of hardware products. The increase in the year is mainly attributable to sales of cash registers following the introduction of the requirement (effective July 2019 for retailers with a certain turnover) to issue electronic receipts;
- Software (€ 49,037 thousand), relating to sales of licences. The decrease in the year is related to an increase in subscription sales;
- Software subscriptions (€ 257,571 thousand), relating to the provision of maintenance and support, which include software updates, helplines, direct support and the use of the licence in the case of subscription sales. The increase is closely linked to the sale of licences via subscriptions, as well as an increase in cloud sales;
- Other services (€ 42,308 thousand), relating to training, implementation and software customisation, as well as payroll processing services and electronic invoicing.;
- Education (€ 12,549 thousand), relating to revenue recognised by companies operating in the professional training sector, namely Gruppo Euroconference S.p.A.

Details of total revenue by operating segment are provided in Note 2 below.

The table below shows the breakdown of total revenues for the 2018 and 2019 financial years according to whether the control was transferred over a period of time ("over time") or at a specific point in time ("at a point in time"):

**Euro Millions**

| | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| Point in time | 85.7 | 99.8 |
| Over time | 290.8 | 236.6 |
| **TOTAL REVENUE** | **376.5** | **336.4** |

## 2. OPERATING SEGMENTS

In accordance with IFRS 8, an operating segment is a component of an entity:
a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

b) whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance;
c) for which discrete financial information is available.

During the course of 2019, TeamSystem Group completed its revision of its corporate reporting system that led to substantial changes to the format of internal reports reviewed periodically by Management with the definitive elimination of the breakdown at the level of the previously identified three operating segments: **Software Solutions, Cloud Software Solutions and Hardware.**
In fact, Group Management deemed it appropriate and necessary (in a technological context of a market characterised by continuous evolution) to review its reporting activities that, effective 2019, envisage one sole operating segment for reporting purposes, the **Software Business Unit**, in line with the new organisational and internal responsibility structure.

In fact, consistent with the Group's new strategic vision and on account of changed market conditions, whereby it is critical to continuously adjust to available technologies, TeamSystem Group has identified a new business direction and new organisational and reporting responsibilities that render the 3 historical operating segments (Software Solutions, Cloud Software Solutions and Hardware) increasingly less independent and significant for a presentation of the manner in which the Group's business is evolving.

Technological developments that are inevitably of interest to TeamSystem Group (on account of the industrial sector it pertains to) offer the Group's customers software solutions that may increasingly be accessed via Cloud technology and, thus, the previous presentation of the Group's business has become less significant on account of continuous migration to new technology. Moreover, following the outsourcing of hardware, which commenced in 2018 and was completed in the year just ended, responsibility for the former Hardware division has been reallocated within the sole segment, partly due to the ancillary and supportive nature that hardware products have in relation to the main software business in the new competitive and market environment.

For the above reasons, during the course of 2019, it became necessary to establish a new reporting model based on one sole operating segment for reporting purposes, namely the **Software Business Unit** as a whole, aligned and perfectly conforming to the current organisational and business structure, which better reflects the Group's operations today.

Note that, at 31 December 2019, the financial sector companies that were newly incorporated and newly acquired in 2019 do not meet the quantitative thresholds set out in the applicable accounting standard (IFRS 8.13) and, given their immateriality within the Group, no specific disclosures have been made at Group level. Related disclosures have thus been presented in the "**Other sectors**" category, separately from the other reconciling items within the reconciliations required by IFRS 8.23.

Set out below is the Group's segment information for the year just ended and for the previous year, which has been restated to reflect the new operating segment structure.

**Euro Millions**

| OPERATING SEGMENTS | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Business unit - Software | 375.8 | 336.4 | 39.4 | 12% |
| Other | 0.7 | | 0.7 | 100% |
| **TOTAL REVENUE** | **376.4** | **336.4** | **40.0** | **12%** |
| Business unit - Software | 146.4 | 125.7 | 20.7 | 16% |
| Other | (0.3) | | (0.3) | 100% |
| **ADJUSTED EBITDA** | **146.1** | **125.7** | **20.4** | **16%** |

The Executive Committee (or the Chief Operating Decision Maker -"CODM"-), composed of a limited number of frontline managers who report to the CEO, measures the Group's performance and allocates resources based on various indicators, the pre-eminent and most significant of which are Adjusted EBITDA, defined as profit (loss) for the year plus (i) income tax, (ii) finance income and costs, (iii) impairment of non-current assets, (iv) other provisions for risks and charges, (v) depreciation and amortisation of non-current assets, (vi) allocations to the allowance for bad debts and (vii) certain costs deemed by Management to be non-core for the measurement of the Group's performance.

Details are set out below of the Adjusted EBITDA reconciliation for 2019 and 2018:

Euro Thousand

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| **PROFIT (LOSS) FOR THE YEAR** | (35,275) | (55,960) | 20,685 | -37.0% |
| Income tax | (2,087) | (17,913) | 15,825 | -88.3% |
| Financial income and expenses | 84,321 | 89,363 | (5,042) | -5.6% |
| Other provisions for risks and charges | 4,360 | 7,020 | (2,660) | -37.9% |
| Depreciation and amortization of non current assets | 84,641 | 83,040 | 1,601 | 1.9% |
| Allowance for bad debts | 4,832 | 5,131 | (299) | -5.8% |
| Costs for changing and closing locations | | 980 | (980) | -100.0% |
| Advisory expenses related to reorganization and cost saving projects | 2,249 | 7,574 | (5,325) | -70.3% |
| Personnel redundancy | 1,346 | 706 | 640 | 90.7% |
| Acquisitions and mergers costs | 517 | 1,293 | (776) | -60.0% |
| Cost for change management program | | 2,111 | (2,111) | -100.0% |
| Cost for credit collection project | | 364 | (364) | -100.0% |
| Tax optimization costs | | 395 | (395) | -100.0% |
| Settlements with clients and agents | 1,121 | 1,112 | 9 | 0.8% |
| Other items | 105 | 465 | (360) | -77.5% |
| **ADJUSTED EBITDA** | **146,129** | **125,681** | **20,449** | **16.3%** |

Lastly, note that there is no concentration of revenue with any specific customer, given the notable segmentation of Group sales, which in the years ended 31 December 2019 and 2018, were almost exclusively realised in Italy.

## 3. COST OF RAW AND OTHER MATERIALS

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Hardware purchases | 5,559 | 4,946 | 613 | 12.4% |
| Third parties' software | 20,449 | 19,799 | 649 | 3.3% |
| Handbooks and forms | 53 | 60 | (8) | -12.6% |
| Materials for education | 149 | 186 | (37) | -19.9% |
| Fuel | 2,072 | 2,299 | (227) | -9.9% |
| Other materials | 656 | 693 | (37) | -5.3% |
| Change in inventory of raw materials | 205 | 356 | (150) | -42.2% |
| **Total** | **29,143** | **28,339** | **804** | **2.8%** |

The cost of raw and other materials for the year ended 31 December 2019 came to € 29,143 thousand. This mainly relates to the cost of sales of hardware and third party software. The increase in the year of approximately 2.8% is attributable to the Group's organic growth and to higher purchases of hardware that rose in the year by 12.4%.

## 4. COST OF SERVICES

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Agent commissions and other costs | 15,619 | 14,016 | 1,603 | 11.4% |
| Consulting and third parties services | 10,756 | 13,898 | (3,143) | -22.6% |
| Software and Hardware maintenance costs | 13,418 | 8,780 | 4,639 | 52.8% |
| Customer support service costs | 5,842 | 1,651 | 4,191 | n.s. |
| Administrative tax and legal | 4,487 | 2,434 | 2,054 | 84.4% |
| Financial interest costs | | | | |
| Education - consulting and copyrights | 3,781 | 3,970 | (189) | -4.8% |
| Magazines - consulting and copyrights | 1,595 | 1,501 | 94 | 6.3% |
| Other costs for education services | 1,177 | 1,440 | (263) | -18.3% |
| Advertising and marketing | 11,419 | 10,212 | 1,207 | 11.8% |
| Management Fees | | | | |
| Car rentals | 2,944 | 3,229 | (285) | -8.8% |
| Utilities | 4,100 | 4,049 | 51 | 1.3% |
| Costs for mergers and acquisitions | 517 | 1,293 | (776) | -60.0% |
| Tax optimization costs | | 395 | (395) | -100.0% |
| Strategic marketing expenses | | | | |
| Other items | 179 | 521 | (342) | -65.6% |
| Costs for strategic projects and reorganizations | 2,563 | 10,757 | (8,194) | -76.2% |
| Other service expenses | 14,503 | 12,410 | 2,093 | 16.9% |
| **Cost of services - Gross of capitalization** | **92,901** | **90,555** | **2,346** | **2.6%** |
| Services capitalised development costs | (2,447) | (2,190) | (257) | 11.7% |
| **Total** | **90,454** | **88,366** | **2,089** | **2.4%** |

Cost of services came to € 90,454 thousand for the year ended 31 December 2019, net of an amount capitalised in the year pertaining to software projects of € 2,447 thousand, details of which are provided in Note 12 on intangible assets.

The main components are the following:
- Agent commissions and other costs (€ 15,619 thousand) relating to compensation payable to agents, an allocation to the provision for agents' indemnity and other costs attributable to commercial consulting services;
- Consulting and third party services (€ 10,756 thousand) mainly relating to the outsourcing to third parties of on-site customer maintenance and support;
- Hardware and Software subscription charges (€ 13,418 thousand) relating to periodic fees for support services and subscriptions for third party products;
- Cost of customer support services (€ 5,842 thousand) that increased sharply in the year due to a rise in requests for assistance concerning electronic invoicing products;
- Acquisition and merger costs (€ 517 thousand) relating to costs incurred for services in connection with M&A transactions that occurred in 2019. Prior year costs amounted to € 1,293 thousand.
- Strategic project and reorganization costs (€ 2,563 thousand) that include the following categories:
    - costs incurred for services related to reorganization and cost saving projects of € 2,249 thousand (€ 7,574 thousand in 2018);
    - fees for legal advice concerning personnel reorganisation of € 314 thousand (€ 82 thousand in 2018);

  The sharp decrease in the year is due to the fact that costs had been incurred in the previous year for the closure and relocation of certain corporate premises (€ 980 thousand in 2018), for the change management program (€ 2,111 thousand in 2018) and for the credit collection project (€ 364 thousand in 2018);
- No tax optmization costs were incurred in 2019, whereas in 2018 they amounted to € 395 thousand;
- Other service costs (€ 14,503 thousand), mainly consisting of:
    - Costs for shipping and transport of € 231 thousand;
    - Costs for reimbursement of expenses of € 5,561 thousand, relating to travel costs and daily allowances for technicians and commercial staff who are involved in installation, support and training at customers' premises;
    - Maintenance costs of € 604 thousand;
    - Insurance costs of € 816 thousand;
    - Training and other HR costs of € 3,827 thousand.

Regarding the capitalisation of cost of services recognised in 2019 (€ 2,447 thousand) reference should be made to Note 12 on Intangible Assets.

## 5. PERSONNEL COSTS

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Wages, salaries and social contributions | 112,337 | 107,068 | 5,269 | 4.9% |
| Staff leaving indemnities | 5,039 | 4,980 | 58 | 1.2% |
| Other personnel costs | 523 | 260 | 263 | n.s. |
| Stock options costs | | | | |
| Personnel costs for redundancy and reorganizations | 1,032 | 978 | 54 | 5.5% |
| **Employees costs** | **118,931** | **113,286** | **5,645** | **5.0%** |
| Freelancers and collaborators fees | 481 | 648 | (167) | -25.7% |
| Directors' fees and related costs | 3,208 | 2,737 | 471 | 17.2% |
| **Directors and Collaborators** | **3,689** | **3,385** | **304** | **9.0%** |
| **Personnel - Gross of capitalization** | **122,620** | **116,671** | **5,949** | **5.10%** |
| Personnel capitalised development costs | **(11,882)** | **(11,696)** | **(187)** | **1.6%** |
| **Total** | **110,738** | **104,975** | **5,763** | **5.5%** |

Personnel costs came to € 110,738 thousand for the year ended 31 December 2019. The 4.9% increase in the year in “Wages, salaries and social contributions” is due, on one hand, to an increase in the average workforce and, on the other hand, to an increase in average cost triggered by contractual obligations.

Total Personnel redundancy costs amounted to € 1,346 thousand (€ 706 thousand in 2018), being the above “Personnel costs for redundancy and reorganisations” (€ 1,032 thousand in 2019), plus “Fees for legal advice concerning personnel reorganisation” (€ 314 thousand in 2019 - see Note 4).

Regarding the capitalisation of personnel costs recognised in 2019 (€ 11,882 thousand) reference should be made to Note 12 on Intangible Assets.

The following table provides details of employee numbers at 31 December 2019.

| | Average 2019 | Average 2018 | Change | 31 Dec 2019 | 31 Dec 2018 | Change |
|---|---|---|---|---|---|---|
| Managers | 70 | 63 | 7 | 71 | 69 | 2 |
| Middle managers / white collars / workers | 1,940 | 1,884 | 56 | 2,068 | 1,811 | 257 |
| **Total** | **2,010** | **1,947** | **63** | **2,139** | **1,880** | **259** |

## 6. OTHER OPERATING COSTS

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Condominium expenses and other rents | 1,250 | 673 | 576 | 85.6% |
| Rentals | 331 | 419 | (89) | -21.2% |
| Other expenses for use of third parties assets | 316 | 394 | (77) | -19.6% |
| Other taxes | 400 | 318 | 83 | 26.0% |
| Losses from assets disposals | 32 | 69 | (37) | -53.4% |
| Other expenses and settlement costs | 2,993 | 2,169 | 824 | 38.0% |
| **Total** | **5,323** | **4,043** | **1,280** | **31.7%** |

Other operating costs came to € 5,323 thousand for the year ended 31 December 2019. The main components are the following:

- Condominium expenses and other rents (€ 1,250 thousand), with the increase being mainly due to condominium expenses related to new rental arrangements entered into in the year;
- Other expenses and settlement costs (€ 2,993 thousand), which mainly relate to the cost of settlement agreements with customers and agents (€ 1,121 thousand in 2019 versus € 1,112 in 2018) and other minor costs of € 105 thousand (versus € 465 thousand in 2018), which include costs relating to management fees.

## 7. FINANCE INCOME

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Interest and other finance income | 209 | 33 | 177 | n.s. |
| Gains on foreign exchange | 5 | 3 | 2 | 46.1% |
| Interest from cash pooling and other loans | (5) | (0) | (5) | n.s. |
| Interest from banks | 6 | 1 | 5 | n.s. |
| Depreciation - Liabilities to non-controlling shareholders | 960 | 16,242 | (15,282) | -94.1% |
| Gain on valuation of derivative instruments | 227 | | 227 | |
| Dividends | 20 | 7 | 13 | n.s. |
| **Total** | **1,421** | **16,285** | **(14,864)** | **-91.3%** |

Finance income came to € 1,421 thousand for the year ended 31 December 2019 and was mainly attributable to the remeasurement of the fair value of the liability to non-controlling shareholders at 31 December 2019.

## 8. FINANCE COSTS

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Interest on bank overdrafts and loans | 13 | 89 | (75) | -85.2% |
| Interest on Notes | 30,417 | 51,641 | (21,224) | -41.1% |
| Interest on derivative instruments | 308 | 169 | 139 | 82.5% |
| Interest on financing fees | 2,807 | 32,604 | (29,797) | -91.4% |
| Revaluation - Liabilities to non-controlling shareholders | 39,862 | 10,604 | 29,257 | n.s. |
| Bank commissions | 2,148 | 1,862 | 286 | 15.4% |
| Loss on valuation of derivative instruments | | 316 | (316) | -100.0% |
| Interest on actuarial valuation of employee benefits | 212 | 752 | (540) | -71.8% |
| Interest on lease contracts - IFRS 16 | 1,028 | 718 | 310 | 43.2% |
| Other IFRS financial charges | 6,080 | 5,513 | 567 | 10.3% |
| Interest on cash pooling and other loans | 48 | 9 | 38 | n.s. |
| Other financial charges | 1,793 | 1,392 | 401 | 28.8% |
| Losses on foreign exchange | 24 | 19 | 5 | 28.0% |
| Write-downs of investment | 1,002 | | 1,002 | |
| **Total** | **85,742** | **105,688** | **(19,945)** | **-18.9%** |

Finance costs for the year ended 31 December 2019 came to € 85,742 thousand. The main components are the following:

- Interest on Notes (€ 30,417 thousand), which includes interest payable on Floating Rate Notes of € 750,000 thousand issued by TeamSystem S.p.A. on 4 April 2018;
- Interest on financing fees (€ 2,807 thousand) includes:
  - € 2,396 thousand relating to financing fees for Floating Rate Notes of € 750,000 thousand;
  - € 411 thousand relating to financing fees for the RCF of € 90 million arranged on 4 April 2018 by TeamSystem S.p.A.;
- Revaluation of liabilities to non-controlling shareholders (€ 39,862 thousand) arising from a change in the fair value thereof due to the remeasurement of the initial exercise price of the options;
- IFRS 16 finance costs and other IFRS finance costs (totalling € 7,108 thousand), which include finance costs recognised by the Group on having discounted the liability to non-controlling shareholders based on the new discount rate for the period (€ 6,080) and interest cost arising from the application of IFRS 16 (€ 1,028 thousand).

## 9. TOTAL INCOME TAX

**Current income tax**

Current tax expense for the 2019 financial year amounted to € 12,481 thousand and mainly consists of the following:

- IRES expense of € 7,873 thousand;
- IRAP expense of € 4,400 thousand;
- Tax expense relating to prior years of € 157 thousand.

There has been a sharp increase in current tax expense in the year due to certain factors that impacted the previous year's current tax and that were not repeated in the year just ended. Specifically, the positive impact of current tax in 2018 was attributable to:

(a) the impact arising, in relation to the 2016 financial year, from the option for the patent box regime exercised by TeamSystem S.p.A. (and by the assignors TSS and ACG) as well as by Metodo S.p.A. for specific software, which is subjected to indirect use. The impact of the above option (€ 3,346 thousand for 2018) was computed autonomously by TeamSystem S.p.A. based on clarifications provided by the Revenue Agency under Resolution No. 28 of 9 March 2017;

(b) the impact of ACE relief under Ministerial Decree of 3 August 2017, entitlement to which was confirmed by the Revenue Agency in its response to the advance ruling request No. 954-927/2017 (the Agency has specifically confirmed the possibility to take account, for the purpose of the computation of the company's ACE base, of the entire amount of the contribution of € 565,530,750 received from the assignor, Barolo BidCo, in 2016).

Regarding the amount of deferred tax recognised in the consolidated statement of profit or loss, reference should be made to Note 17.

## 10. CONSOLIDATED STATEMENT OF CASH FLOWS

With regards to the more significant components of the statement of cash flows, a description is provided below of the main factors impacting the Group's cash flow in the course of 2019:

**Liabilities to non-controlling shareholders** = the amount of liabilities to non-controlling shareholders paid in 2019 amounts to € 6,039 million and relates to the acquisition of further interests in TeamSystem Communication S.r.l. and the payment of earn-outs primarily relating to investments in Aliaslab S.p.A., Evols S.r.l. and Reviso International Aps (see also Note 19).

**Finance costs/income paid/received and change in Financial Assets/Liabilities** = regarding the amount of € 40,136 thousand reported for the year ended 31 December 2019:

- € 32,783 thousand relates to finance costs paid by the Group in the course of 2019. Specifically, this amount includes:
  1) € 30,333 thousand relating to interest paid on Floating Rate Notes of € 750 million;
  2) € 2,157 thousand relating mainly to the payment of interest and bank charges.
  3) € 293 thousand relating to interest paid on derivatives.
- € 550 thousand relating to the amount received from the sale of securities held by Skylab S.r.l.
- € 7,037 thousand relating to the total amount of lease payments made in the year consisting of principal (€ 6,009 thousand) and interest (€ 1,028 thousand) following the adoption of IFRS 16.
- € 750 thousand relating to the repayment of loans and borrowings by Whit-e S.r.l.

**Acquisition of investments** = the amount of € 19,785 thousand relates mainly to:
- 2) Cash-out paid by TeamSystem S.p.A. for the acquisition of Skylab S.r.l., TeamSystem 4 S.r.l. and TechMass S.r.l.
- Cash-put paid by the Group for equity interests in Factor@Work S.r.l. and Whit-e S.r.l.;
- Cash-out paid by Nuovamacut Automazione S.p.A. for the acquisition of Gi.Esse Macchine Utensili S.r.l. and Iperelle S.r.l.;
- Cash-out paid by TeamSystem Service S.r.l. for the acquisition of BK Service S.r.l.

The table below provides details of the change in the year in financial liabilities, with separate disclosure of those that have generated cash flows as opposed to other changes of a non-cash nature.

| | | Cash flows | | | | Other non - cash movements | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 31 Dec 2018 | Repayments and other financial flows | New financing | Change in cons. area | Other movements | Accruals and other financial income / cost | Change in cons. area | Other movements | 31 Dec 2019 |
| Loans with banks | **101** | (69) | | | | | | | **32** |
| Finance leases liabilities | **24,340** | (7,037) | | | | 1,028 | 608 | 5,012 | **23,952** |
| Notes | **751,250** | (30,333) | | | | 30,417 | | | **751,334** |
| Liabilities to non-controlling shareholders | **87,524** | (5,050) | | | | 43,992 | 18,921 | | **145,387** |
| Cash pooling liabilities | **(0)** | | | | | | | | **(0)** |
| Other financial liabilities | **(0)** | 11 | | | | | | | **11** |

## 11. TANGIBLE FIXED ASSETS

| COST | 31 Dec 2017 | Change in cons. area | Additions | Other movements and disposals | 31 Dec 2018 |
|---|---|---|---|---|---|
| Land | 948 | | | | 948 |
| Buildings | 6,063 | | | | 6,063 |
| Plant and machinery | 6,445 | | 1,319 | (332) | 7,432 |
| Equipment | 2,625 | 1 | 248 | (149) | 2,725 |
| Other assets | 22,064 | 20 | 2,083 | (1,077) | 23,090 |
| Tangible assets under construction | | | | | |
| **Total** | **38,145** | **21** | **3,650** | **(1,558)** | **40,258** |

| ACCUMULATED DEPRECIATION | 31 Dec 2017 | Change in cons. area | Depreciation | Other movements and disposals | 31 Dec 2018 |
|---|---|---|---|---|---|
| Land | | | | | |
| Buildings | 2,457 | | 267 | | 2,724 |
| Plant and machinery | 3,396 | | 687 | (113) | 3,970 |
| Equipment | 1,653 | | 233 | (133) | 1,753 |
| Other assets | 15,269 | | 2,043 | (827) | 16,485 |
| Tangible assets under construction | | | | | |
| Total | 22,775 | | 3,230 | (1,073) | 24,932 |

| NET BOOK VALUE | 31 Dec 2017 | Change in cons. area | Additions | (Depreciation) | Other movements and disposals | 31 Dec 2018 |
|---|---|---|---|---|---|---|
| Land | 948 | | | | | 948 |
| Buildings | 3,606 | | | (267) | | 3,339 |
| Plant and machinery | 3,049 | (0) | 1,319 | (687) | (219) | 3,462 |
| Equipment | 972 | 1 | 248 | (233) | (16) | 973 |
| Other assets | 6,795 | 20 | 2,083 | (2,043) | (250) | 6,605 |
| Tangible assets under construction | | | | | | |
| Total | 15,370 | 21 | 3,650 | (3,230) | (485) | 15,326 |

| COST | 31 Dec 2018 | Change in cons. area | Additions | Other movements and disposals | 31 Dec 2019 |
|---|---|---|---|---|---|
| Land | 948 | | | | 948 |
| Buildings | 6,063 | | | (1) | 6,062 |
| Plant and machinery | 7,432 | 24 | 1,492 | 50 | 8,997 |
| Equipment | 2,725 | 65 | 100 | 2 | 2,892 |
| Other assets | 23,090 | 260 | 1,401 | 71 | 24,822 |
| Tangible assets under construction | | | | 7 | 7 |
| Total | 40,258 | 349 | 2,993 | 129 | 43,728 |

| ACCUMULATED DEPRECIATION | 31 Dec 2018 | Change in cons. area | Depreciation | Other movements and disposals | 31 Dec 2019 |
|---|---|---|---|---|---|
| Land | | | | | |
| Buildings | 2,724 | | 267 | | 2,991 |
| Plant and machinery | 3,970 | | 908 | 56 | 4,934 |
| Equipment | 1,753 | | 233 | 0 | 1,986 |
| Other assets | 16,485 | | 2,133 | 60 | 18,678 |
| Tangible assets under construction | | | | | |
| Total | 24,932 | | 3,541 | 116 | 28,589 |

| NET BOOK VALUE | 31 Dec 2018 | Change in cons. area | Additions | (Depreciation) | Other movements and disposals | 31 Dec 2019 |
|---|---|---|---|---|---|---|
| Land | 948 | | | | | 948 |
| Buildings | 3,339 | | | (267) | (1) | 3,071 |
| Plant and machinery | 3,462 | 24 | 1,492 | (908) | (6) | 4,064 |
| Equipment | 973 | 65 | 100 | (233) | 2 | 907 |
| Other assets | 6,605 | 260 | 1,401 | (2,133) | 10 | 6,144 |
| Tangible assets under construction | | | | | 7 | 7 |
| Total | 15,326 | 349 | 2,993 | (3,541) | 12 | 15,139 |

Tangible fixed assets amount to € 15,139 thousand at 31 December 2019, having decreased in the year by a net amount of € 187 thousand. The decrease is due to the net impact of:

- Additions of € 3,342 thousand, of which € 349 thousand is due to a change in the scope of consolidation;
- Depreciation of € 3,541 thousand.

## 12. INTANGIBLE ASSETS

| NET BOOK VALUE | 31 Dec 2017 | Change in cons. area | Other movements and disposals | Capitalization | Additions | (Amortization) | 31 Dec 2018 |
|---|---|---|---|---|---|---|---|
| **Capitalized development costs** | **26,195** | | **839** | **13,556** | **35** | **(12,439)** | **28,186** |
| Brand IFRS | 121,845 | | | | | (6,791) | 115,054 |
| Software IFRS | 51,663 | | | | | (14,897) | 36,766 |
| Customer relationship IFRS | 497,716 | | | | | (30,036) | 467,680 |
| Other IFRS assets | 16,294 | | | | | (1,008) | 15,286 |
| **Asset IFRS** | **687,518** | | | | | **(52,732)** | **634,786** |
| Software, trademarks, patents | 10,624 | | (2) | 328 | 11,348 | (6,057) | 16,241 |
| Other intangible assets | 3,529 | | (109) | | 1,455 | (2,669) | 2,206 |
| Intangible assets under construction | 833 | | (752) | | 37 | | 118 |
| **Other intangible assets** | **14,985** | | **(863)** | **328** | **12,840** | **(8,726)** | **18,565** |
| Total | **728,699** | | **(24)** | **13,885** | **12,875** | **(73,896)** | **681,539** |

| NET BOOK VALUE | 31 Dec 2018 | Change in cons. area | Other movements and disposals | Capitalization | Additions | (Amortization) | 31 Dec 2019 |
|---|---|---|---|---|---|---|---|
| **Capitalized development costs** | **28,186** | | **(675)** | **13,972** | | **(12,632)** | **28,852** |
| Brand IFRS | 115,054 | | | | | (6,791) | 108,263 |
| Software IFRS | 36,766 | 2,670 | | | | (15,431) | 24,005 |
| Customer relationship IFRS | 467,680 | 6,000 | | | | (30,036) | 443,645 |
| Other IFRS assets | 15,286 | | | | | (1,008) | 14,278 |
| **Asset IFRS** | **634,786** | **8,670** | | | | **(53,266)** | **590,191** |
| Software, trademarks, patents | 14,628 | 115 | 876 | 357 | 10,670 | (7,350) | 19,297 |
| Other intangible assets | 3,819 | 645 | 9 | | 494 | (1,373) | 3,595 |
| Intangible assets under construction | 118 | 51 | (128) | | 11 | | 51 |
| **Other intangible assets** | **18,565** | **811** | **756** | **357** | **11,175** | **(8,723)** | **22,942** |
| Total | **681,539** | **9,481** | **82** | **14,329** | **11,175** | **(74,621)** | **641,985** |

Intangible assets amount to € 641,985 thousand at 31 December 2019.

Internally generated development costs relate to costs capitalised for new products and new software modules, which, at 31 December 2019, had not yet been completed or for which the marketing and sales phase had not yet started.

Regarding capitalised development costs recognised in 2018 of € 13,972 thousand, the main components relate to development costs capitalised by the subsidiary TeamSystem S.p.A. during the course of 2019.

The increases in Software IFRS and Customer relationship IFRS (of € 2,670 thousand and € 6,000 thousand, respectively) are due to a change in the scope of consolidation. See Note 15 – Allocation of provisional goodwill.

## 13. RIGHT-OF-USE

This comprises the present value of future payments for the right of use of leased assets arising from the application of IFRS 16 as follows:

| NET BOOK VALUE | 31 Dec 2017 | IFRS 16 first adoption | Change in cons. area | Additions and other movements | (Amortization) | (Disposals) | 31 Dec 2018 |
|---|---|---|---|---|---|---|---|
| Buildings - Right of use | | 22,897 | | 1,262 | (4,138) | | 20,021 |
| Other assets - Right of use | | 3,480 | | 2,170 | (1,776) | | 3,874 |
| **Right of use - Total** | | **26,377** | | **3,432** | **(5,914)** | | **23,895** |
| Total | | **26,377** | | **3,432** | **(5,914)** | | **23,895** |

| NET BOOK VALUE | 31 Dec 2018 | | Change in cons. area | Additions and other movements | (Amortization) | (Disposals) | 31 Dec 2019 |
|---|---|---|---|---|---|---|---|
| Buildings - Right of use | 20,021 | | 582 | 2,694 | (4,352) | (205) | 18,740 |
| Other assets - Right of use | 3,874 | | 26 | 2,641 | (2,127) | (167) | 4,247 |
| **Right of use - Total** | **23,895** | | **608** | **5,335** | **(6,479)** | **(373)** | **22,987** |
| Total | **23,895** | | **608** | **5,335** | **(6,479)** | **(373)** | **22,987** |

Right-of-use assets amount to € 22,987 at 31 December 2019 thousand, having decreased by € 908 thousand with respect to last year, which was the year of initial application of IFRS 16.

Assets held under lease consist of:

- Buildings of € 18,740 thousand, relating to the operational premises of the Group companies, the balance of which decreased in the year due to the combined impact of new additions of € 2,694 thousand, of depreciation and disposals in the period of € 4,557 thousand and of a change in the scope of consolidation of € 582 thousand.
- Other assets of € 4,274 thousand relating mainly to company cars, the balance of which increased in the year by 9.6%.

## 14. GOODWILL

Of the Goodwill balance of € 734,258 thousand, € 631,292 relates to the amount recognised upon the acquisition of TeamSystem Group by H&F in March 2016, while the remainder relates to goodwill that arose on acquisitions completed in subsequent years, including 2019. Goodwill consists mainly of the excess of the consideration paid for the aforementioned acquisitions over the fair value of the assets acquired and the liabilities assumed and has been allocated to the CGUs or groups of CGUs that were identified by the Group.

As disclosed in Note 2 - Operating Segments, during the course of 2019, TeamSystem Group completed its revision of its corporate reporting system (that led to substantial changes to the format of internal reports reviewed periodically by Management) with the definitive elimination of the breakdown at the level of the previously identified three operating segments: **Software Solutions, Cloud Software Solutions and Hardware.**

Consistent with the Group's new strategic vision and on account of changed market conditions, whereby it is critical to continuously adjust to available technologies, TeamSystem Group has identified a new business direction and new organisational and reporting responsibilities that render the three historical cash generating units (Software Solutions, Cloud Software Solutions and Hardware) increasingly less independent and significant for a presentation of the manner in which the Group's business is evolving.

For the above reasons, during the course of 2019, it became necessary to establish a new model based on a cash generating unit (CGU) – **Software** - consisting of a reporting operating segment, namely the "Software Business Unit" and a CGU – **Financial Services** - consisting of a non-reporting operating segment, namely "Other sectors".

As a consequence of the foregoing, the Group has reallocated the goodwill recognised in the financial statements based on the new CGUs identified. At 31 December 2019, the Group's total goodwill has been allocated as set out below:

| | 31 Dec 2018 | Other movements | Additions | (Impairment) | 31 Dec 2019 |
|---|---|---|---|---|---|
| CGU - Software | 707,681 | | 17,721 | | 725,402 |
| CGU - Financial Services | | | 8,855 | | 8,855 |
| **Total** | **707,681** | | **26,576** | | **734,258** |

The increase in goodwill recorded in the 2019 financial year of € 26,576 thousand relates to the companies acquired by the Group during the year (see Note 15 – Allocation of provisional goodwill), being:

- Factor@Work S.r.l. (€ 2,433 thousand).
- Whit-e S.r.l. (€ 6,422 thousand).
- Skylab Italia S.r.l. (€ 7,974 thousand);
- TeamSystem 4 S.r.l. (€ 2,393 thousand);
- Gi.Esse Macchine Utensili S.r.l. (€ 2,221 thousand);
- TechMass S.r.l. (€ 1,691 thousand).
- Iperelle S.r.l. (€ 1,712 thousand).
- BK Service S.r.l. (€ 1,731 thousand).

The purchase price allocations recognised for the acquisitions of these companies was still provisional at 31 December 2019 and, accordingly, the related goodwill was also provisional. Further details are provided in the paragraph on "Provisional allocation of goodwill".

### Impairment Test

The goodwill recognised by the Group is subject to an impairment test at least annually.

For the purpose of the impairment test, steps have been taken to determine the recoverable amount (enterprise value) of each CGU of TeamSystem Group as a whole that had been identified by Management as the lowest level to which goodwill is allocated for internal management purposes, by means of the application of discounted cash flow methodology. The test was performed by discounting prospective cash flows for 2020-2023 based on amounts included in the 2020-2023 Group Business Plan approved by TeamSystem Holding S.p.A's Board of Directors on 3 March 2020.

A terminal value was determined beyond the explicit forecast horizon based on operating cash flows (net operating profit less adjusted taxes - NOPLAT) appropriately normalised to reflect normal business operations. In the choice of the growth rate to apply to NOPLAT, it was established that, consistent with the development foreseen by the Business Plan and with historical growth, there was a reasonable expectation of growth of 1.90% (so-called g rate).

In addition to the g rate assumption, the main assumptions adopted regarded an estimate of the post-tax weighted average cost of capital ("WACC") of 7.0 % (Software CGU) and 6.2 % (Financial Services CGU).

The results of the impairment tests conducted did not provide any indication of impairment at 31 December 2019.

The Group also performed sensitivity analysis, by applying different assumptions for the determination of WACC and g-rate parameters. The results of this analysis are set out below:

| **CGU - SOFTWARE<br>Cover Impairment Sensitivity** | | | | **WACC** | | |
|---|---|---|---|---|---|---|
| **Euro million** | | **6,0%** | **6,5%** | **7,0%** | **7,5%** | **8,0%** |
| | **0,9%** | 1.560,6 | 1.312,1 | 1.104,3 | 928,1 | 776,7 |
| | **1,4%** | 1.828,2 | 1.529,3 | 1.283,9 | 1.078,7 | 904,6 |
| **G RATE** | **1,9%** | 2.161,1 | 1.793,8 | **1.498,6** | 1.256,1 | 1.053,4 |
| | **2,4%** | 2.586,5 | 2.122,9 | 1.760,0 | 1.468,4 | 1.228,9 |
| | **2,9%** | 3.149,1 | 2.543,3 | 2.085,2 | 1.726,8 | 1.438,7 |

| **CGU - Financial Services<br>Cover Impairment Sensitivity** | | | | **WACC** | | |
|---|---|---|---|---|---|---|
| **Euro million** | | **5,2%** | **5,7%** | **6,2%** | **6,7%** | **7,2%** |
| | **0,9%** | 43,7 | 37,6 | 32,6 | 28,5 | 25,1 |
| | **1,4%** | 50,7 | 43,1 | 37,0 | 32,1 | 28,1 |
| **G RATE** | **1,9%** | 59,9 | 50,0 | **42,4** | 36,5 | 31,6 |
| | **2,4%** | 72,4 | 59,1 | 49,3 | 41,8 | 35,9 |
| | **2,9%** | 90,3 | 71,4 | 58,3 | 48,6 | 41,2 |

The impairment test models and related results were approved by the Board of Directors of TeamSystem Holding S.p.A. on 3 March 2020, in accordance with the guidelines contained in joint document No. 4 of March 2010 issued by ISVAP, Bank of Italy and Consob.

It should also be noted that, starting from January 2020, the national and international scenario has been characterized by the spread of Coronavirus and the consequent restrictive measures for its containment, put in place by the public authorities of the countries concerned. These circumstances, extraordinary in nature and extent, are producing direct and indirect repercussions on the activity of the international economic system and have created a context of general uncertainty, the evolution of which and the related effects are not currently foreseeable. As a result of the foregoing, the Group believes that some effects could occur on the estimates used by management for the preparation of the impairment test as at 31 December 2019 (such as, for example, those relating to expected cash flows, the discount rates applied, the growth rate "G rate" used, etc.), which, at present, are difficult to determine, considering the climate of extreme uncertainty and the changing scenario. However, the directors believe that there would be no need for impairment given the current large "covers" emerging from the impairment tests.
It should be noted that the directors are constantly monitoring the situation also to identify possible effects, also accounting effects, that could occur in 2020 following the ongoing epidemic.

## 15. ALLOCATION OF PROVISIONAL GOODWILL

**Factor@Work S.r.l.**
The company was acquired in March 2019 and is fully held by TeamSystem Financial Value Chain S.r.l. This transaction has facilitated TeamSystem Group's entry into the financial services sector, which is new for the Group.

Factor@Work S.r.l.'s results have been consolidated in 2019 as from April 2019, which was close to the date of acquisition. The company reported total revenue for 2019 of € 240 thousand and a loss of € 396 thousand.

The purchase price allocation recognised for the acquisition of Factor@Work S.r.l. was still provisional at 31 December 2019 and, consequently, the related goodwill was also provisional at the reporting date; the resulting goodwill is not tax deductible.

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>FACTOR @ WORK<br>ASSETS | Mar 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Tangible assets | 11 | |
| Intangible assets | 93 | |
| **TOTAL NON CURRENT ASSETS** | **105** | |
| Trade receivables | 118 | |
| Tax receivables | 7 | |
| Other receivables - current | 23 | |
| Cash and bank balances | 116 | |
| **TOTAL CURRENT ASSETS** | **264** | |
| **TOTAL ASSETS** | **369** | **A** |

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>FACTOR @ WORK<br>LIABILITIES | Mar 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Staff leaving indemnity | 11 | |
| **TOTAL NON CURRENT LIABILITIES** | **11** | |
| Financial liabilities with banks and other institutions - current | 10 | |
| Trade payables | 166 | |
| Other liabilities - current | 98 | |
| **TOTAL CURRENT LIABILITIES** | **274** | |
| **TOTAL LIABILITIES** | **285** | **B** |

| | | |
|---|---|---|
| **Fair Value of acquired net assets** | **84** | **C = A - B** |
| **Cost of the investment - net of transaction costs** | **2,518** | **D** |
| **Provisional Goodwill IFRS 3** | **2,433** | **E = D - C** |

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## Whit-e S.r.l.

The company was acquired in March 2019 and is fully held by TeamSystem Financial Value Chain S.r.l. This transaction has facilitated TeamSystem Group's entry into the financial services sector, which is new for the Group.

Whit-e S.r.l.'s results have been consolidated in 2019 as from April 2019, which was close to the date of acquisition. The company reported total revenue for 2019 of € 1,282 thousand and a profit of € 428 thousand.

The purchase price allocation recognised for the acquisition of Whit-e S.r.l. was still provisional at 31 December 2019 and, consequently, the related goodwill was also provisional at the reporting date; the resulting goodwill is not tax deductible.

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>WHIT-E<br>ASSETS | Mar 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Tangible assets | 10 | |
| Intangible assets | 2,790 | |
| **TOTAL NON CURRENT ASSETS** | **2,800** | |
| Trade receivables | 169 | |
| Other receivables - current | 32 | |
| Cash and bank balances | 753 | |
| **TOTAL CURRENT ASSETS** | **954** | |
| **TOTAL ASSETS** | **3,754** | **A** |

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>WHIT-E<br>LIABILITIES | Mar 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Staff leaving indemnity | 5 | |
| Deferred tax liabilities | 745 | |
| **TOTAL NON CURRENT LIABILITIES** | **750** | |
| Financial liabilities with banks and other institutions - current | 750 | |
| Trade payables | 44 | |
| Tax liabilities - current | 21 | |
| Other liabilities - current | 107 | |
| **TOTAL CURRENT LIABILITIES** | **922** | |
| **TOTAL LIABILITIES** | **1,672** | **B** |
| **Fair Value of acquired net assets** | **2,083** | **C = A - B** |
| **Cost of the investment - net of transaction costs** | **8,504** | **D** |
| **Provisional Goodwill IFRS 3** | **6,422** | **E = D - C** |

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**Skylab Italia S.r.l.**

In April 2019, TeamSystem S.p.A. acquired a 60% interest in Skylab Italia S.r.l., a company specialised in cloud solutions for personnel management. A put and call option agreement was entered into with respect to the remaining 40% interest. This transaction will allow TeamSystem Group to expand its product portfolio, as well as to reinforce its competitive position in this target market.

Skylab Italia S.r.l.'s results have been consolidated in 2019 as from May 2019, which was close to the date of acquisition. The company reported total revenue for 2019 of € 4,990 thousand and a profit of € 1,338 thousand.

The purchase price allocation recognised for the acquisition of Skylab Italia S.r.l. was still provisional at 31 December 2019 and, consequently, the related goodwill was also provisional at the reporting date; the resulting goodwill is not tax deductible.

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>SKYLAB ITALIA<br>ASSETS | Apr 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Tangible assets | 78 | |
| Intangible assets | 56 | |
| Right of use | 331 | |
| Other Investments | 142 | |
| Deferred tax assets | 17 | |
| **TOTAL NON CURRENT ASSETS** | **624** | |
| Trade receivables | 1,146 | |
| Tax receivables | 127 | |
| Other receivables - current | 383 | |
| Other financial assets - current | 550 | |
| Cash and bank balances | 5,451 | |
| **TOTAL CURRENT ASSETS** | **7,657** | |
| **TOTAL ASSETS** | **8,281** | **A** |

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>SKYLAB ITALIA<br>LIABILITIES | Apr 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Financial liabilities with banks and other institutions - non current | 305 | |
| Staff leaving indemnity | 617 | |
| **TOTAL NON CURRENT LIABILITIES** | **922** | |
| Financial liabilities with banks and other institutions - current | 27 | |
| Trade payables | 643 | |
| Tax liabilities - current | 123 | |
| Other liabilities - current | 1,673 | |
| **TOTAL CURRENT LIABILITIES** | **2,466** | |
| **TOTAL LIABILITIES** | **3,388** | **B** |
| **Fair Value of acquired net assets** | **4,893** | **C = A - B** |
| **Cost of the investment - net of transaction costs** | **12,867** | **D** |
| **Provisional Goodwill IFRS 3** | **7,974** | **E = D - C** |

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**TeamSystem 4 S.r.l.**

In July 2019, TeamSystem S.p.A. acquired a controlling interest (of 100%) in TeamSystem 4 S.r.l., which acts as a TeamSystem products dealer for its assigned territory.

TeamSystem 4 S.r.l.'s results have been consolidated in 2019 as from August 2019, which was close to the date of acquisition. The company reported total revenue for 2019 of € 589 thousand and a profit of € 31 thousand.

The purchase price allocation recognised for the acquisition of TeamSystem 4 S.r.l. was still provisional at 31 December 2019 and, consequently, the related goodwill was also provisional at the reporting date; the resulting goodwill is not tax deductible.

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>TEAMSYSTEM 4<br>ASSETS | July 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Tangible assets | 97 | |
| Intangible assets | 429 | |
| Right of use | 210 | |
| Deferred tax assets | 1 | |
| **TOTAL NON CURRENT ASSETS** | **737** | |
| Trade receivables | 445 | |
| Cash and bank balances | 218 | |
| **TOTAL CURRENT ASSETS** | **664** | |
| **TOTAL ASSETS** | **1,401** | **A** |

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>TEAMSYSTEM 4<br>LIABILITIES | July 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Financial liabilities with banks and other institutions - non current | 210 | |
| Staff leaving indemnity | 26 | |
| Deferred tax liabilities | 85 | |
| **TOTAL NON CURRENT LIABILITIES** | **321** | |
| Other financial liabilities - current | 200 | |
| Trade payables | 14 | |
| Tax liabilities - current | 30 | |
| Other liabilities - current | 778 | |
| **TOTAL CURRENT LIABILITIES** | **1,022** | |
| **TOTAL LIABILITIES** | **1,343** | **B** |

| | | |
|---|---|---|
| **Fair Value of acquired net assets** | **58** | **C = A - B** |
| **Cost of the investment - net of transaction costs** | **2,451** | **D** |
| **Provisional Goodwill IFRS 3** | **2,393** | **E = D - C** |

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**Gi.esse Macchine Utensili S.r.l.**

In September 2019, Nuovamacut S.p.A. acquired a 100% interest in Gi.esse Macchine Utensili S.r.l., a leading company in the purchase and sale of industrial machinery in the north of Italy, already synergically integrated with Nuovamacut Automazione S.p.A.

Gi.Esse Macchine Utensili S.r.l.'sresults have been consolidated in 2019 as from December 2019, which was close to the date of acquisition. The company reported total revenue for 2019 of € 11,330 thousand and a profit of € 133 thousand.

The purchase price allocation recognised for the acquisition of Gi.esse Macchine Utensili S.r.l. was still provisional at 31 December 2019 and, consequently, the related goodwill was also provisional at the reporting date; the resulting goodwill is not tax deductible.

Euro thousands

| STATEMENT OF FINANCIAL POSITION GIESSE ASSETS | Dec 2019 After PPA provisional adjustments | NOTES |
|---|---|---|
| Tangible assets | 83 | |
| Deferred tax assets | 22 | |
| **TOTAL NON CURRENT ASSETS** | **105** | |
| Trade receivables | 2,087 | |
| Tax receivables | 240 | |
| Other receivables - current | 415 | |
| Cash and bank balances | 965 | |
| **TOTAL CURRENT ASSETS** | **3,707** | |
| **TOTAL ASSETS** | **3,812** | **A** |

Euro thousands

| STATEMENT OF FINANCIAL POSITION GIESSE LIABILITIES | Dec 2019 After PPA provisional adjustments | NOTES |
|---|---|---|
| Staff leaving indemnity | 45 | |
| **TOTAL NON CURRENT LIABILITIES** | **45** | |
| Trade payables | 2,047 | |
| Tax liabilities - current | 194 | |
| Other liabilities - current | 204 | |
| **TOTAL CURRENT LIABILITIES** | **2,445** | |
| **TOTAL LIABILITIES** | **2,490** | **B** |
| **Fair Value of acquired net assets** | **1,322** | **C = A - B** |
| **Cost of the investment - net of transaction costs** | **3,542** | **D** |
| **Provisional Goodwill IFRS 3** | **2,221** | **E = D - C** |

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**TechMass S.r.l.**
At the end of September 2019, TeamSystem S.p.A. acquired a 51% controlling interest in TechMass S.r.l., a software house engaged in software development and the digitalisation of production processes. A put and call option agreement was entered into with respect to the remaining 49% interest. With this acquisition, the Group has further strengthened its product range dedicated to digital transformation, which facilitates a stronger link between manufacturing plants and management systems.

TechMass S.r.l.'s results have been consolidated in 2019 as from October 2019, which was close to the date of acquisition. The company reported total revenue for 2019 of € 240 thousand and a profit of € 96 thousand.

The purchase price allocation recognised for the acquisition of TechMass S.r.l. was still provisional at 31 December 2019 and, consequently, the related goodwill was also provisional at the reporting date; the resulting goodwill is not tax deductible.

Euro thousands

| STATEMENT OF FINANCIAL POSITION TECHMASS ASSETS | Sept 2019 After PPA provisional adjustments | NOTES |
|---|---|---|
| Tangible assets | 8 | |
| Intangible assets | 56 | |
| Deferred tax assets | 2 | |
| **TOTAL NON CURRENT ASSETS** | **66** | |
| Trade receivables | 56 | |
| Tax receivables | 1 | |
| Other receivables - current | 5 | |
| Cash and bank balances | 242 | |
| **TOTAL CURRENT ASSETS** | **304** | |
| **TOTAL ASSETS** | **370** | **A** |

Euro thousands

| STATEMENT OF FINANCIAL POSITION TECHMASS LIABILITIES | Sept 2019 After PPA provisional adjustments | NOTES |
|---|---|---|
| Staff leaving indemnity | 3 | |
| **TOTAL NON CURRENT LIABILITIES** | **3** | |
| Financial liabilities with banks and other institutions - current | 15 | |
| Trade payables | 36 | |
| Tax liabilities - current | 3 | |
| Other liabilities - current | 29 | |
| **TOTAL CURRENT LIABILITIES** | **83** | |
| **TOTAL LIABILITIES** | **86** | **B** |

| | | |
|---|---|---|
| **Fair Value of acquired net assets** | **284** | **C = A - B** |
| **Cost of the investment - net of transaction costs** | **1,975** | **D** |
| **Provisional Goodwill IFRS 3** | **1,691** | **E = D - C** |

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## Iperelle S.r.l.

At the end of October 2019, Nuovamacut Automazione S.p.A. acquired a 100% holding in Iperelle S.r.l., a company specialised in the configuration, customisation and distribution of PLM and CAD/CAM solutions. With this acquisition, Nuovamacut further strengthened its leadership in the PLM and CAD/CAM solutions market, enabling it to cover all product development processes for both small and large enterprises.

Iperelle Group's results have been consolidated in 2019 as from December 2019, which was close to the date of acquisition. Iperelle Group reported total revenue for 2019 of € 9,289 thousand and a profit of € 66 thousand.

The purchase price allocation recognised for the acquisition of Iperelle S.r.l. was still provisional at 31 December 2019 and, consequently, the related goodwill was also provisional at the reporting date; the resulting goodwill is not tax deductible.

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>IPERELLE GROUP<br>ASSETS | Dec 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Tangible assets | 48 | |
| Intangible assets | 5 | |
| Right of use | 67 | |
| Deferred tax assets | 28 | |
| **TOTAL NON CURRENT ASSETS** | **147** | |
| Inventories | 4 | |
| Trade receivables | 2,916 | |
| Tax receivables | 146 | |
| Other receivables - current | 256 | |
| Cash and bank balances | 212 | |
| **TOTAL CURRENT ASSETS** | **3,534** | |
| **TOTAL ASSETS** | **3,681** | **A** |

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>IPERELLE GROUP<br>LIABILITIES | Dec 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Financial liabilities with banks and other institutions - non current | 67 | |
| Staff leaving indemnity | 315 | |
| Provisions for risks and charges | 1 | |
| **TOTAL NON CURRENT LIABILITIES** | **382** | |
| Financial liabilities with banks and other institutions - current | 16 | |
| Trade payables | 775 | |
| Other liabilities - current | 790 | |
| **TOTAL CURRENT LIABILITIES** | **1,582** | |
| **TOTAL LIABILITIES** | **1,964** | **B** |
| **Fair Value of acquired net assets** | **1,717** | **C = A - B** |
| **Cost of the investment - net of transaction costs** | **3,429** | **D** |
| **Provisional Goodwill IFRS 3** | **1,712** | **E = D - C** |

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## BK Service S.r.l.

In December 2019, TeamSystem Service S.r.l. acquired a 100% holding in a newly incorporated company called BK Service S.r.l., a company operating in the HR services industry (payroll and payroll processing and personnel administration and management). The transaction has enabled TeamSystem Service to expand its market share and its presence in Italy.

The company was set up at the end of 2019 and will become operative in 2020.

The purchase price allocation recognised for the acquisition of BK Service S.r.l. was still provisional at 31 December 2019 and, consequently, the related goodwill was also provisional at the reporting date; the resulting goodwill is not tax deductible.

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>BK SERVICE<br>ASSETS | Dec 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Tangible assets | 14 | |
| Intangible assets | 6,000 | |
| **TOTAL NON CURRENT ASSETS** | **6,014** | |
| **TOTAL ASSETS** | **6,014** | **A** |

Euro thousands

| STATEMENT OF FINANCIAL POSITION<br>BK SERVICE<br>LIABILITIES | Dec 2019<br>After PPA<br>provisional<br>adjustments | NOTES |
|---|---|---|
| Staff leaving indemnity | 437 | |
| Deferred tax liabilities | 1,674 | |
| **TOTAL NON CURRENT LIABILITIES** | **2,111** | |
| Other liabilities - current | 565 | |
| **TOTAL CURRENT LIABILITIES** | **565** | |
| **TOTAL LIABILITIES** | **2,677** | **B** |

| | | |
|---|---|---|
| **Fair Value of acquired net assets** | **3,337** | **C = A - B** |
| **Cost of the investment - net of transaction costs** | **5,068** | **D** |
| **Provisional Goodwill IFRS 3** | **1,731** | **E = D - C** |

## 16. INVESTMENTS IN OTHER COMPANIES AND INVESTMENTS IN ASSOCIATES

| | 31 Dec 2017 | Change in cons. area | Other movements | Revaluations | (Write-downs) | Additions | (Disposals) | 31 Dec 2018 |
|---|---|---|---|---|---|---|---|---|
| Investments in Associates | 147 | | | 40 | | | (54) | 133 |
| Other Investments | 447 | | 2 | | | | | 449 |
| Total | **594** | | **2** | **40** | | | **(54)** | **582** |

| | 31 Dec 2018 | Change in cons. area | Other movements | Revaluations | (Write-downs) | Additions | (Disposals) | 31 Dec 2019 |
|---|---|---|---|---|---|---|---|---|
| Investments in Associates | 133 | | | | | | (5) | 129 |
| Other Investments | 449 | 142 | | | (82) | | (201) | 308 |
| Total | **582** | **142** | | | **(82)** | | **(206)** | **436** |

## 17. DEFERRED TAX ASSETS AND LIABILITIES

### Deferred tax assets

Deferred tax assets at 31 December 2019 amounted to € 14,760 thousand. Details of movements in deferred tax assets in 2019 are shown in the following table.

| DEFERRED TAX ASSETS | 31 Dec 2017 | IFRS 15 / 16 / 9 first adoption | Change in cons. area | Other movements | Additions | (Utilisations) | 31 Dec 2018 |
|---|---|---|---|---|---|---|---|
| Provision for slow-moving inventories | 55 | | | | 14 | | 69 |
| Provision for pension and similar obligation | 140 | | | | | | 140 |
| Staff leaving indemnity - actuarial valuation | 177 | | | 22 | 62 | (185) | 76 |
| Provision for litigations | 196 | | | 23 | 671 | (46) | 843 |
| Other items | 43 | 303 | | | | (346) | 0 |
| Provision for bad-debts | 3,159 | 99 | | 28 | 910 | (351) | 3,845 |
| Provision for Restructuring | 1,953 | | | | 1,032 | (1,953) | 1,032 |
| Other Provision | 42 | | | (42) | | | 0 |
| Tax Losses brought forward | 1,007 | | | | | (1,007) | |
| Tax step-up of Goodwill | 8,499 | | | 61 | | (844) | 7,716 |
| **TeamSystem S.p.A. and TeamSystem Holding S.p.A.** | **15,271** | **402** | | **92** | **2,689** | **(4,733)** | **13,722** |
| Deferred tax asset of other Subsidiaries | 1,485 | | | (70) | | (58) | 1,357 |
| **Other Subsidiaries** | **1,485** | | | **(70)** | | **(58)** | **1,357** |
| Provision for slow-moving inventories | 56 | | | | | | 56 |
| Write-off tangible / intangible assets | 6 | | | | 7 | (7) | 7 |
| Provision for litigations | 32 | | | | | (32) | (0) |
| Provision for bad-debts | | 57 | | | (57) | | |
| Staff leaving indemnity - actuarial valuation | 216 | | | (22) | 71 | (77) | 188 |
| Right of use - lease contracts | | | | | 14 | | 14 |
| Other items | (0) | 1 | | | | (1) | (0) |
| **Consolidation entries** | **310** | **58** | | **(22)** | **35** | **(117)** | **264** |
| **Total** | **17,065** | **460** | | **0** | **2,724** | **(4,908)** | **15,342** |

| DEFERRED TAX ASSETS | 31 Dec 2018 | | Change in cons. area | Other movements | Additions | (Utilisations) | 31 Dec 2019 |
|---|---|---|---|---|---|---|---|
| Provision for slow-moving inventories | 69 | | | | | (47) | 21 |
| Provision for pension and similar obligation | 140 | | | 22 | 148 | | 310 |
| Staff leaving indemnity - actuarial valuation | 76 | | | | | | 76 |
| Provision for litigations and other provisions | 843 | | | | 1,205 | (528) | 1,521 |
| Other items | 0 | | | 2 | | (2) | 0 |
| Provision for bonus schemes | | | | | 161 | | 161 |
| Provision for bad-debts | 3,845 | | | 256 | 869 | (947) | 4,023 |
| Provision for Restructuring | 1,032 | | | | | (895) | 137 |
| Tax step-up of Goodwill | 7,716 | | | | | (820) | 6,896 |
| **TeamSystem S.p.A. and TeamSystem Holding S.p.A.** | **13,722** | | | **280** | **2,383** | **(3,239)** | **13,145** |
| Deferred tax asset of other Subsidiaries | 1,357 | | 28 | (256) | | (2) | 1,127 |
| **Other Subsidiaries** | **1,357** | | **28** | **(256)** | | **(2)** | **1,127** |
| Provision for slow-moving inventories | 56 | | | | | | 56 |
| Write-off tangible / intangible assets | 7 | | | | 9 | (4) | 12 |
| Provision for litigations and other provisions | (0) | | | | | | (0) |
| Staff leaving indemnity - actuarial valuation | 188 | | 41 | (22) | 215 | (21) | 400 |
| Right of use - lease contracts | 14 | | | (2) | 8 | | 20 |
| **Consolidation entries** | **264** | | **41** | **(24)** | **232** | **(25)** | **488** |
| **Total** | **15,342** | | **69** | | **2,615** | **(3,266)** | **14,760** |

Deferred tax assets at 31 December 2019 include approximately € 6,896 thousand relating to a step-up for tax purposes of goodwill recognised by TSS S.p.A. (merged by absorption into TeamSystem S.p.A. in 2016). The other main components for which the Group companies have recognised deferred tax assets relate to the allowance for bad debts and to other provisions for risks and charges which are disallowed for tax purposes. These deferred tax assets are not subject to any maturity or expiration.

## Deferred tax liabilities

Deferred tax liabilities at 31 December 2019 amounted to € 168,958 thousand. Movements in deferred tax liabilities in 2019 are summarised in the following table.

| DEFERRED TAX LIABILITIES | 31 Dec 2017 | IFRS 15 / 16 / 9 first adoption | Change in cons. area | Other movements | Additions | (Utilisations) | 31 Dec 2018 |
|---|---|---|---|---|---|---|---|
| Financing Fees | 6,365 | | | | 2,838 | (6,365) | 2,838 |
| Fair value valuation of lands and buildings | 1,164 | | | | | (71) | 1,093 |
| TeamSystem - Intangibles | 173,921 | | | | | (13,532) | 160,389 |
| Capitalized development costs | 198 | | | 25 | | (77) | 147 |
| Staff leaving indemnity - actuarial valuation | | | | | | | |
| Investments revaluation | 730 | | | | | (383) | 347 |
| Other | | 338 | | | 6 | (338) | 6 |
| **TeamSystem S.p.A. and TeamSystem Holding S.p.A.** | **182,378** | **338** | | **25** | **2,844** | **(20,766)** | **164,819** |
| Deferred tax liabilities of other Subsidiaries | 88 | | | | | (24) | 64 |
| **Other Subsidiaries** | **88** | | | | | **(24)** | **64** |
| Staff leaving indemnity - actuarial valuation | | | | | | | |
| Euroconference - Intangibles | 1,012 | | | | | (56) | 957 |
| Euroconference - Services in progress | | | | | 10 | | 10 |
| Finance lease and valuation of asset at fair value | | | | | | | |
| Investments revaluation | (730) | | | | | 383 | (347) |
| Nuovamacut - Intangibles | 7,217 | | | | | (479) | 6,737 |
| Capitalized development costs | 401 | | | (25) | 299 | (148) | 526 |
| Aliaslab - Intangibles | 10,235 | | | | | (983) | 9,251 |
| Other | 3 | | | | | (3) | |
| **Consolidation entries** | **18,137** | | | **(25)** | **309** | **(1,286)** | **17,135** |
| **Total** | **200,604** | **338** | | | **3,153** | **(22,076)** | **182,018** |

| DEFERRED TAX LIABILITIES | 31 Dec 2018 | | Change in cons. area | Other movements | Additions | (Utilisations) | 31 Dec 2019 |
|---|---|---|---|---|---|---|---|
| Financing Fees | 2,838 | | | | | (575) | 2,263 |
| Fair value valuation of land and buildings | 1,093 | | | | | (71) | 1,022 |
| TeamSystem - Intangibles | 160,389 | | | | | (13,237) | 147,152 |
| Capitalized development costs | 147 | | | 151 | | (145) | 153 |
| Staff leaving indemnity - actuarial valuation | | | | | | | |
| Investments revaluation | 347 | | | | | (59) | 288 |
| Other | 6 | | | | | (6) | (0) |
| **TeamSystem S.p.A. and TeamSystem Holding S.p.A.** | **164,819** | | | **151** | | **(14,093)** | **150,878** |
| Deferred tax liabilities of other Subsidiaries | 64 | | 85 | | | (52) | 97 |
| **Other Subsidiaries** | **64** | | **85** | | | **(52)** | **97** |
| Staff leaving indemnity - actuarial valuation | | | | | | | |
| Euroconference - Intangibles | 957 | | | | | (56) | 901 |
| Euroconference - Services in progress | 10 | | | | | | 10 |
| Investments revaluation | (347) | | | | | 59 | (288) |
| Nuovamacut - Intangibles | 6,737 | | | | | (479) | 6,258 |
| BK Serive and Whit-e - Intangibles | | | 2,419 | | | (148) | 2,271 |
| Capitalized development costs | 526 | | | (151) | 282 | (95) | 562 |
| Aliaslab - Intangibles | 9,251 | | | | | (983) | 8,268 |
| Other | | | | | | | |
| **Consolidation entries** | **17,135** | | **2,419** | **(151)** | **282** | **(1,702)** | **17,982** |
| **Total** | **182,018** | | **2,504** | | **282** | **(15,847)** | **168,958** |

The main decrease in 2019 of € 13,237 thousand relates to the reversal of the deferred tax liability recognised on the amortisation of intangible assets (software, brands, customer relationships and other IFRS assets) identified for the purpose of the allocation of the price paid for the acquisition of TeamSystem Group by the private equity firm H&F.

Given that almost all the Group companies are domiciled in Italy, one of the significant recurring differences between the actual tax rate and the nominal tax rate relates to interest expense that exceeded the limit of gross operating profit (in relation to which the Group companies have not recognised any deferred tax at 31 December 2019). In any case, the potential deferred tax asset relating to the foregoing amounts to approximately € 42,200 million at 31 December 2019.

## 18. NET CASH/DEBT

| | Current | Non Current | 31 Dec 2019 Total | Current | Non Current | 31 Dec 2018 Total |
|---|---|---|---|---|---|---|
| Bank accounts and post office | 36,375 | | 36,375 | 24,508 | | 24,508 |
| Cash and bank balances | 38 | | 38 | 67 | | 67 |
| **Total Cash and bank balances** | **36,412** | | **36,412** | **24,574** | | **24,574** |
| Cash Pooling receivables | (0) | | (0) | 0 | | 0 |
| Other financial assets | 72 | | 72 | 138 | 50 | 188 |
| **Total Other financial assets** | **72** | | **72** | **138** | **50** | **188** |
| Loans with banks | (32) | | (32) | (101) | | (101) |
| Finance leases liabilities | (5,610) | (18,342) | (23,952) | (5,514) | (18,827) | (24,340) |
| Notes | (1,333) | (750,000) | (751,333) | (1,250) | (750,000) | (751,250) |
| Financial liabilities with other institutions | (3) | | (3) | | | |
| Dividends to be paid | (40) | | (40) | (40) | | (40) |
| **Total Financial liabilities** | **(7,019)** | **(768,342)** | **(775,361)** | **(6,905)** | **(768,827)** | **(775,731)** |
| Financing Fees - notes | | 9,431 | 9,431 | | 11,827 | 11,827 |
| Financing Fees - prepayments | 413 | 701 | 1,114 | 413 | 1,112 | 1,525 |
| **Total Financing Fees** | **413** | **10,132** | **10,545** | **413** | **12,939** | **13,352** |
| Liabilities to non-controlling shareholders | (19,781) | (125,607) | (145,387) | (4,112) | (83,412) | (87,524) |
| Derivative instruments - liabilities | (103) | | (103) | (14) | (316) | (330) |
| Commissions financial liabilities | (237) | | (237) | (276) | | (276) |
| Other financial liabilities | (11) | | (11) | (0) | | (0) |
| **Total Other financial liabilities** | **(20,131)** | **(125,607)** | **(145,738)** | **(4,402)** | **(83,728)** | **(88,130)** |
| **Total** | **9,747** | **(883,817)** | **(874,070)** | **13,818** | **(839,566)** | **(825,747)** |

Net debt as of 31 December 2019 amounted to € 874,070 thousand.

**<u>Lease liabilities</u>**
Lease liabilities at 31 December 2019 amounted to € 23,952 thousand. In 2018, the Group was an early adopter of IFRS 16 – *Leases*: following its early adoption, a financial liability of € 24,340 thousand was recognised at 31 December 2018, consisting of the present value of future lease payments.

As required by this standard, disclosure is hereby given that the weighted average incremental borrowing rate (IBR) applied to lease liabilities recognised in the financial statements at the date of initial application was approximately 4%, whereas the weighted average IBR applied in 2019 was approximately 4.3%.

**<u>Floating Rate Notes</u>**
With the objective of optimising the Group's borrowing costs and of aligning its financial resources to its new business needs, during the course of 2018, TeamSystem Group restructured its financial structure. Specifically, on 4 April 2018, TeamSystem S.p.A. issued:

- € 550 million equating to the principal amount of senior secured floating rate notes due 15 April 2023 **(“2023 Floating Rate Notes”)** at an interest rate equating to the three-month Euribor rate (with a floor of 0%) plus an annual spread of 4.00% (ISIN XS1799538464 and ISIN XS1799537904);
- € 200 million equating to the principal amount of senior secured floating rate notes due 15 April 2025 (**“2025 Floating Rate Notes** and, together with the 2023 Floating Rate Notes, **“Floating Rate Notes”**) with an identical interest rate and terms and conditions practically identical to the 2023 Floating Rate Notes (ISIN XS1799545089 and XS1799545675).

At 31 December 2019, the Floating Rate Notes were secured by a senior guarantee provided by TeamSystem Holding S.p.A. and were also secured by the following first ranking collateral:
1) pledge over all of the shares of TeamSystem S.p.A.;
2) assignment by way of security of intercompany loans receivable by TeamSystem S.p.A. from certain subsidiaries;
3) pledge over certain of TeamSystem S.p.A.'s operational bank accounts.

The Floating Rate Notes are listed on the Luxembourg Stock Exchange and have been admitted for trading on the Euro MTF Market. Furthermore, the Floating Rate Notes are listed on the Vienna Stock Exchange and have been admitted for trading on the Third Market.

The costs incurred for the issue of the Floating Rate Notes have been accounted for as Financing Fees and have been amortised on a straight line basis over the contractual term of the Floating Rate Notes, which, as indicated above, are due on 15 April 2023 (2023 Floating Rate Notes) and on 15 April 2025 (2025 Floating Rate Notes).

**<u>Interest Rate Swaps – Financial derivative liabilities</u>**
With the aim of reducing the risk of market interest rate fluctuations associated with the Floating Rate Notes, in April 2018, TeamSystem S.p.A. entered into two interest rate swap contracts with a total notional amount of € 500 million and

with a termination date of 15 April 2020. The fair value changes in measurement of the interest rate swaps have been recognised in profit or loss for the year ended 31 December 2019.

**Bank loans and borrowings – Revolving Credit Facility (RCF)**
Concurrently with the issue of the Floating Rate Notes, on 22 March 2018, TeamSystem S.p.A. and TeamSystem Holding S.p.A. entered into a new revolving credit facility agreement for a principal amount of € 90 million with a maturity date of 15 October 2022 and then proceeded with the full redemption of the previous RCF of € 65 million that had been arranged on 13 February 2016. The interest rate payable on the new line of credit is based on Euribor / LIBOR, with a floor of 0.00%, plus a spread, calculated quarterly based on certain contractual parameters ("Senior Secured Net Leverage Ratio").

The New Revolving Credit Facility has also been secured by the same collateral provided for the Floating Rate Notes (see above paragraph).

The costs incurred to obtain the New RCF have been recognised as financing fees and are being amortised on a straight line basis over the contractual term of the credit facility.

**Liabilities to non-controlling shareholders**
Liabilities to non-controlling shareholders (€ 145,387 thousand at 31 December 2019) relate to put and call options and/or earn-outs due to non-controlling interest holders of certain consolidated subsidiaries, being mainly: Danea Soft S.r.l., Madbit Entertainment S.r.l., Aliaslab S.p.A., Evols S.r.l., Netlex S.r.l., Cassanova S.r.l. as well as the change in the scope of consolidation attributable to Skylab S.r.l., TeamSystem Financial Value Chain S.r.l., TeamSystem AM Holdco S.r.l. and TechMass S.r.l.

Changes in the balance of Liabilities to non-controlling shareholders in 2019 and 2018 are summarised below.

| | 31 Dec 2017 | Change in cons. area | Interest | Revaluations | Write-downs | Payments | Dividends paid | 31 Dec 2018 |
|---|---|---|---|---|---|---|---|---|
| Liabilities to non-controlling shareholders | 101,448 | | 5,514 | 10,604 | (16,242) | (13,800) | | 87,524 |
| **Total** | **101,448** | | **5,514** | **10,604** | **(16,242)** | **(13,800)** | | **87,524** |

| | 31 Dec 2018 | Change in cons. area | Interest | Revaluations | Write-downs | Payments | Dividends paid | 31 Dec 2019 |
|---|---|---|---|---|---|---|---|---|
| Liabilities to non-controlling shareholders | 87,524 | 18,921 | 6,080 | 38,872 | (960) | (5,050) | | 145,387 |
| **Total** | **87,524** | **18,921** | **6,080** | **38,872** | **(960)** | **(5,050)** | | **145,387** |

Payments were made of liabilities to non-controlling shareholders in 2019 of € 5,050 thousand due to the exercise of earn-out clauses primarily relating to investments in Aliaslab S.p.A., Evols S.r.l. and Reviso International ApS.

As a consequence of the uncertainty conditions generated by the Coronavirus emergency, the evolution of which and the related effects are not currently foreseeable, the Group believes that some effects may occur on the estimates used by management for determining the value of the put / call options and earn-outs due to non-controlling shareholders as at 31 December 2019 (such as, for example, the forecast plans used), which, at present, are difficult to determine, considering the climate of extreme uncertainty and the changing scenario.

## 19. INVENTORIES

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Raw and ancillary materials | 437 | 608 | (172) | -28.2% |
| Finished products and goods | 930 | 943 | (13) | -1.4% |
| Advances | | 4 | (4) | -100.0% |
| (Allowance for slow-moving inventory) | (522) | (488) | (34) | 6.9% |
| **Total** | **845** | **1,067** | **(222)** | **-20.9%** |

Inventories amounted to € 845 thousand at 31 December 2019 and included hardware products not yet delivered at the reporting date, as well as consumables, accessories, third party software modules and software licences for resale.

## 20. TRADE RECEIVABLES

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Trade receivables | 141,296 | 147,843 | (6,546) | -4.4% |
| (Allowance for bad debts) | (18,823) | (18,901) | 78 | -0.4% |
| **Total** | **122,474** | **128,941** | **(6,468)** | **-5.0%** |

Trade receivables at 31 December 2019 amounted to € 122,474 thousand, net of the allowance for bad debts of € 18,823 thousand.
The decrease in trade receivables is mainly attributable to the effective credit recovery policy implemented by the Group: in fact, despite an increase in revenue of approximately 11.9%, trade receivables have decreased by 5%.

Movements in the allowance for bad debts in 2019 are summarised below.

| | 31 Dec 2017 | | IFRS 15 / 16 / 9 first adoption | (*) Additions | (*) (Utilisations) | 31 Dec 2018 |
|---|---|---|---|---|---|---|
| Allowance for bad debts | 16,561 | | 647 | 5,131 | (3,438) | 18,901 |
| **Total** | **16,561** | | **647** | **5,131** | **(3,438)** | **18,901** |

**(*) = Credit Losses balance included both in Addition and Utilisation figures**

| | 31 Dec 2018 | | | (*) Additions | (*) (Utilisations) | 31 Dec 2019 |
|---|---|---|---|---|---|---|
| Allowance for bad debts | 18,901 | | | 4,832 | (4,911) | 18,823 |
| **Total** | **18,901** | | | **4,832** | **(4,911)** | **18,823** |

**(*) = Losses on bad debts included both in Addition and Utilisation figures**

The utilisations of the allowance are due to the write off of receivables, based on elements of certainty and precision, or based on ongoing insolvency proceedings.
Effective 2018, the Group has implemented a new system for the management and monitoring of receivables that introduced a revision of the procedure for the computation of the allowance for bad debts.
In designing this procedure, account was taken of the requirements of IFRS 9 concerning the application of an expected credit loss model that requires the analysis and writedown, if necessary, of receivables not yet past due. The expected credit loss rates are based on the historical collection times and on the corresponding losses on historical credits. Historical loss rates are then adjusted to reflect the current and future macroeconomic condition influencing customers' ability to repay payables. On this basis, the allowance for doubtful accounts to be subjected to collective writedown at 31 December 2019 is equal to € 484 thousand.
During the course of 2019, the Group consolidated its use of the receivables impairment policy that led to the recognition in profit or loss of a total impairment loss of € 4,832 thousand.

As a consequence of the uncertain conditions generated by the Coronavirus emergency, the evolution of which and the related effects are not foreseeable at present, the Group believes that negative effects on the timing and methods of collection of the trade receivables may occur, which, at present, are difficult to determine, considering the climate of extreme uncertainty and the changing scenario. The management constantly monitors the evolution of the situation.

## 21. TAX RECEIVABLES

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Tax credits | 148 | 101 | 46 | 45.6% |
| Other tax receivables | 86 | 2 | 84 | n.s. |
| Withholding tax credit | 43 | 0 | 43 | n.s. |
| Tax consolidation receivables | 4 | 29 | (25) | -87.4% |
| Advances and credit on income taxes | 3,567 | 10,812 | (7,244) | -67.0% |
| **Total** | **3,847** | **10,944** | **(7,096)** | **-64.8%** |

Tax receivables at 31 December 2019 amounted to € 3,847 thousand.

Advances and tax credits mainly relate to an IRES tax credit pertaining to TeamSystem S.p.A. resulting from the response to the advance ruling request concerning ACE as well as resulting from the submission of supplementary tax returns under the patent box regime (see also Note 9. – Total income tax).

## 22. OTHER CURRENT RECEIVABLES

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| VAT receivables | 607 | 516 | 91 | 17.6% |
| Deposits | 493 | 472 | 21 | 4.4% |
| Receivables from employees | 691 | 284 | 407 | n.s. |
| Other receivables - current | 6,355 | 4,820 | 1,535 | 31.8% |
| Accrued income | 133 | 38 | 95 | n.s. |
| Prepayments | 22,116 | 18,717 | 3,399 | 18.2% |
| **Other current receivables** | **30,395** | **24,847** | **5,548** | **22.33%** |

Other current receivables came to € 30,395 thousand at 31 December 2019. The main components are the following:

- Other sundry current receivables (€ 6,355 thousand), which mainly consist of advances to suppliers paid by various Group companies;
- Prepaid expenses (€ 22,116 thousand), which mainly consist of fees for maintenance and support provided by third parties. The significant increase in the year is attributable, in particular, to the increase in cloud business and in costs incurred for support provided to third parties;
- Deposits (€ 493 thousand) mainly relating to cautionary deposits required by rental arrangements.

## 23. TOTAL EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT COMPANY AND TO NON-CONTROLLING INTERESTS

| | Share capital | Other reserves | Other Profit (Loss) net of income taxes | Retained earnings (accumulated losses) | Profit (Loss) attributable to Owners of the Company | Equity attributable to Owners of the Company | Non controlling interests | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2017** | **5,450** | **559,754** | **(826)** | **0** | **(57,134)** | **507,244** | **1,023** | **508,267** |
| IFRS 9 / 15 / 16 - first adoption | | (405) | | | | **(405)** | | **(405)** |
| Profit (Loss) allocation | | (57,134) | | | 57,134 | **0** | | **0** |
| Change in Non controlling interests IFRS 3 | | (1,782) | | | | **(1,782)** | (570) | **(2,352)** |
| Dividends | | | | | | **0** | (58) | **(58)** |
| Profit (Loss) for the year | | | | | (56,030) | **(56,030)** | 70 | **(55,959)** |
| Other Profit (Loss) on comprehensive income | | 684 | | | | **684** | | **684** |
| **31 Dec 2018** | **5,450** | **501,117** | **(826)** | **0** | **(56,030)** | **449,711** | **464** | **450,175** |

| | Share capital | Other reserves | Other Profit (Loss) net of income taxes | Retained earnings (accumulated losses) | Profit (Loss) attributable to Owners of the Company | Equity attributable to Owners of the Company | Non controlling interests | TOTAL |
|---|---|---|---|---|---|---|---|---|
| **31 Dec 2018** | **5,450** | **501,117** | **(826)** | **0** | **(56,030)** | **449,711** | **464** | **450,175** |
| Profit (Loss) allocation | | (56,030) | | | 56,030 | **0** | | **0** |
| TeamSystem Holding S.p.A. distribution of reserves | | (48,000) | | | | **(48,000)** | | **(48,000)** |
| Profit (Loss) for the year | | | | | (35,346) | **(35,346)** | 71 | **(35,275)** |
| Other Profit (Loss) on comprehensive income | | (1,067) | | | | **(1,067)** | | **(1,067)** |
| **31 Dec 2019** | **5,450** | **396,020** | **(826)** | **0** | **(35,346)** | **365,298** | **536** | **365,835** |

Equity attributable to owners of the Parent Company at 31 December 2019 amounted to € 365,834 thousand.

The decrease in Other reserves (€ 105,097 thousand) mainly relates to the coverage of the loss reported by the Group for the year ended 31 December 2018 of € 56,030 thousand and the distribution of reserves of TeamSystem Holding S.p.A.

Equity attributable to non-controlling interests (€ 536 thousand) relates to equity interests held by third parties in Gruppo Euroconference S.p.A. and Voispeed Limited.

## 24. STAFF LEAVING INDEMNITY

| | 31 Dec 2017 | Outsourcing | Change in cons. area | Other movements | Service cost | Interest cost | Actuarial (gain) / loss | (Utilisations) | 31 Dec 2018 |
|---|---|---|---|---|---|---|---|---|---|
| Staff leaving indemnity | 18,280 | (1,345) | 17 | 121 | 862 | 268 | (921) | (2,390) | 14,892 |
| **Total** | **18,280** | **(1,345)** | **17** | **121** | **862** | **268** | **(921)** | **(2,390)** | **14,892** |

| | 31 Dec 2018 | Outsourcing | Change in cons. area | Other movements | Service cost | Interest cost | Actuarial (gain) / loss | (Utilisations) | 31 Dec 2019 |
|---|---|---|---|---|---|---|---|---|---|
| Staff leaving indemnity | 14,892 | | 1,459 | 178 | 740 | 280 | 1,414 | (1,625) | 17,338 |
| **Total** | **14,892** | | **1,459** | **178** | **740** | **280** | **1,414** | **(1,625)** | **17,338** |

The liability associated with the staff leaving indemnity at 31 December 2019 amounted to € 17,338 thousand. The increase in staff leaving indemnity is mainly due to the combined impact of IAS remeasurements (see comment below) and to utilisations in 2019 of € 1,625 thousand.

In accordance with IAS 19, the staff leaving indemnity is considered to be a defined benefit plan to be accounted for by applying the "Projected Unit Credit Method," which consists of discounting an estimate of the amount to be paid to each employee on termination of their employment and the consequent determination of:
- **initial DBO**, that is, the present value of employee service payments expected to be made in the future, already available at the beginning of the period;
- **service cost**, that is, the present value of expected future employee service relating to services provided in the current period;
- **interest cost**, namely, interest on the provision at the beginning of the period and on corresponding movements in the period being considered;
- **benefits paid and transfers in/out** represent all payments and transfers in and out relating to the period being considered, being elements that lead to the utilisation of the provision
- **the actuarial gain / loss,** namely, the actuarial gain/loss relating to the valuation period.

The estimate, which was performed by an independent actuary, was computed on the basis of the following assumptions:

| | **2019 financial year** | **2018 financial year** |
|---|---|---|
| Turnover | 4.00% | 4.00% |
| Discount rate | 0.97% | 1.95% |
| Anticipation rate | 1.00 % | 1.00 % |

The discount rate used for the determination of the present value of the staff leaving indemnity at 31 December 2019 and 2018 was determined with reference to the IBoxx Eurozone Corporate A index.

Moreover, it should be noted that, should the annual discount rate vary by +/- 0.25%, the staff leaving indemnity at 31 December 2019 would amount to approximately € 15.9 million and € 16.9 million, respectively.

IAS 19 - Employee Benefits requires the recognition of actuarial gains and losses arising from the "remeasurement" of liabilities and assets in the consolidated statement of comprehensive income. Consequently, the amount included in the consolidated statement of comprehensive income for the year ended 31 December 2019 (€ 1,414 thousand) corresponds to the actuarial gains/losses, as stated above, net of the tax effect of € 400 thousand.

## 25. PROVISIONS FOR RISKS AND CHARGES

| | 31 Dec 2017 | Change in cons. area | Other movements | Additions | (Utilisations) | 31 Dec 2018 |
|---|---|---|---|---|---|---|
| Provision for pension and similar obligation | 1,261 | | 21 | 213 | (227) | 1,269 |
| Provision for litigations | 1,504 | | | 1,580 | (897) | 2,187 |
| Other Provision for risks and charges | 7,590 | | | 5,417 | (7,183) | 5,824 |
| **Total** | **10,355** | | **21** | **7,211** | **(8,307)** | **9,280** |

| | 31 Dec 2018 | Change in cons. area | Other movements | Additions | (Utilisations) | 31 Dec 2019 |
|---|---|---|---|---|---|---|
| Provision for pension and similar obligation | 1,269 | | 21 | 273 | (87) | 1,476 |
| Provision for litigations | 2,187 | | 8 | 4,360 | (1,580) | 4,974 |
| Other Provision for risks and charges | 5,824 | | 309 | 360 | (4,349) | 2,144 |
| **Total** | **9,280** | | **338** | **4,993** | **(6,016)** | **8,595** |

Provisions for risks and charges amounted to € 8,595 thousand at 31 December 2019. The components thereof are the following:

- Provision for pensions and similar obligations of € 1,476 thousand, relating mainly to the provision for agents' indemnity; disbursements are triggered by the termination of agreements with Group companies' agents for reasons not attributable thereto (death, natural termination of activities and such like); accordingly, it is not possible to reliably estimate the timing of disbursements;
- Provision for litigation and disputes of € 4,974 thousand, relating to liabilities deemed to be probable that could arise from legal disputes involving TeamSystem S.p.A., Aliaslab S.p.A. and Gruppo Euroconference S.p.A.; Management is not able to estimate the date of the probable cash-out;
- Other provisions for risks and charges, which amount to € 2,144 thousand, decreased by € 4,349 thousand mainly due to the utilisation by the Group of the restructuring provision.
  Of the amount provided in 2018 of € 4,295 thousand, the Group has not yet utilised an amount of € 571 thousand in connection with external costs relating to the reorganisation of business operations that the Group will incur in 2020.
  Other provisions for risks and charges also include other residual liabilities deemed to be probable pertaining to TeamSystem S.p.A. and other Group companies.

## 26. CURRENT TAX LIABILITIES

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| Income tax payables | 3,657 | 2,305 | 1,351 | 58.62% |
| Liabilities from tax consolidation | (1) | (1) | 0 | -19.71% |
| Other tax liabilities | 0 | 11 | (11) | -99.82% |
| **Total** | **3,656** | **2,315** | **1,340** | **57.9%** |

Current tax liabilities came to € 3,656 at 31 December 2019. The balance almost entirely consists of current IRES and IRAP liabilities.

## 27. OTHER CURRENT AND NON-CURRENT LIABILITIES

| | 31 Dec 2019 | 31 Dec 2018 | Change | % Change |
|---|---|---|---|---|
| VAT liabilities | 3,231 | 3,857 | (625) | -16.21% |
| Withholdings liabilities | 4,395 | 4,194 | 201 | 4.8% |
| Employees payables and Social security liabilities - current | 26,363 | 24,904 | 1,458 | 5.9% |
| Advances | 5,217 | 5,697 | (480) | -8.4% |
| Other liabilities | 2,401 | 2,358 | 44 | 1.9% |
| Accrued liabilities | 866 | 527 | 338 | 64.2% |
| Deferred revenues | 57,988 | 44,699 | 13,289 | 29.7% |
| **Other current liabilities** | **100,461** | **86,235** | **14,225** | **16.50%** |
| Social security liabilities - non current | 515 | 561 | (46) | -8.1% |
| Other tax liabilities - non current | 8 | 13 | (6) | -42.7% |
| **Other non current liabilities** | **523** | **574** | **(51)** | **-8.93%** |
| **Total Other liabilities** | **100,984** | **86,810** | **14,174** | **16.33%** |

Other current and non-current liabilities amounted to a total of € 100,984 thousand at 31 December 2019.

Employee payables and social security liabilities of € 26,363 thousand relate to salaries and 2019 production bonuses (not yet paid at the year end) payable to employees, directors and collaborators, as well as accruals for public holidays and holiday pay, inclusive of related social contributions. There are no employee bonuses due beyond one year worthy of note.

Advances at 31 December 2019 amounted to € 5,217 thousand and mainly relate to advances received for ongoing training services being provided at the reporting date.

Deferred revenue (€ 57,988 thousand) mainly relates to the portion of revenue for software subscriptions (pertaining essentially to Nuovamacut Group companies, TeamSystem S.p.A., Madbit Entertainment S.r.l. and Danea Soft S.r.l.) attributable to future financial years, based upon the duration of the underlying contracts.

## 28. FINANCIAL INSTRUMENTS AND IFRS 7

The Group is exposed to a variety of risks of a financial nature that are managed and monitored centrally and which can be categorised as follows:

### Foreign exchange risks

The Group operates almost exclusively in Italy and, accordingly, is not exposed to foreign exchange risks. The Group's foreign currency transactions are almost entirely limited to those entered into by the subsidiary Reviso International ApS, by its investees and by Vospeed Limited, which, as things now stand, consist of modest amounts.
Similarly, due to the insignificance of the amounts concerned, the risk arising from the translation of foreign currency financial statements for consolidation purposes is also insignificant.

### Credit risk

Credit risk is the risk that a counterparty fails to meet its contractual commitments, giving rise to a financial loss being incurred by the Group.
The credit risk is substantially reduced by the high fragmentation of the customer base and the high degree of customer loyalty. Moreover, accurate procedures for the control of overdue balances limit doubtful balances to insignificant amounts.

In any case, the customer credit policy, by customer category (dealers and end-users), envisages:
a) the control and assessment of credit standing;
b) a control of the flow of receipts;
c) taking appropriate action by issuing reminders and by the use of credit collection procedures, including recourse to companies specialised in debt recovery.

The maximum theoretical exposure to credit risk for the Group is represented by the carrying amount of trade receivables as presented in the consolidated financial statements, as well as residual financial receivables recorded in current and non-current financial assets.

As at 31 December 2019, the Group did not have any insurance cover for trade receivables.

The tool used most by the Group for the classification and control of trade receivables consists of an Ageing List, in which amounts of overdue receivables are summarised by ageing category, from the most recent (0-30 days) to the oldest (over 180 days).

With respect to trade receivables, the allowance recorded in the consolidated financial statements was determined based on a specific analysis of doubtful accounts, plus a general allowance to take account of further expected losses on balances not yet overdue (in accordance with IFRS 9), based on historical data and past experience of losses recorded by the Group.

**Interest rate risk**

TeamSystem Group's finance structure mainly consists of floating rate debt as a consequence of the debt refinancing transaction that TeamSystem Group completed in April 2018 and which consisted of the issue of Floating Rate Notes with a principal amount of € 750 million. The yield on these Notes is linked to the 3 month Euribor rate (subject to a floor of 0.00%), plus a spread established contractually. Conditions applied to the RCF (also renegotiated upon the issue of the Notes in April 2018) also provide for floating interest rates (based on Euribor with a floor of 0.00%) plus a spread established contractually. With the aim of reducing the risk of market interest rate fluctuations associated with the Floating Rate Notes, TeamSystem Group has entered into interest rate swap contracts (with a total notional amount of € 500 million) and with a termination date of 15 April 2020.

If interest rates payable on the Notes had been 0.5% higher during the course of 2019 (with respect to the interest rate actually paid during the course of 2019), finance costs pertaining to the Notes would have been € 1.3 million higher; if, however, interest rates payable on the Notes had been 1.00% higher (with respect to those actually paid during the course of 2019), TeamSystem Group would have been faced with approximately € 2.5 million of higher finance costs.

No sensitivity analysis has been performed on interest rates payable on the RCF, since no significant average amounts relating to the RCF were recognised during the course of 2019 and there was a nil balance at 31 December 2019.

**Liquidity risk**

The two main factors that determine the dynamics of the Group's liquidity are, on one hand, the resources generated/absorbed by operating and investment activities and, on the other hand, the maturity and renewal of financial liabilities. Management of these risks is entrusted to TeamSystem Group's Finance Department.

Of the procedures adopted with the intention of optimising cash flow management and of reducing the liquidity risk, the following should be noted:

1. the maintenance of an adequate level of available liquidity;
2. the adoption of Cash-pooling at Group level;
3. the obtainment of adequate borrowing facilities;
4. the control of prospective liquidity conditions, in relation to the corporate planning process.

Set out below are details of the Group's financial assets and liabilities analysed according to the related due dates of the payment outflows. The flows indicated are non-discounted nominal cash flows, determined with reference to the residual contractual maturity for both capital and interest elements for which the assumed interest rates have remained unchanged.

| POSITION AT 31 DECEMBER 2019 | 31 Dec 2019 | within 1 year | within 2 - 4 years | over 4 years | Total cash flows |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Other financial assets | 72 | 72 | | | **72** |
| Crediti per Cash Pooling | (0) | (0) | | | **(0)** |
| **FINANCIAL LIABILITIES** | | | | | |
| Loans with banks | (32) | (32) | | | **(32)** |
| Finance leases liabilities | (23,952) | (8,074) | (15,939) | (6,298) | **(30,311)** |
| Notes | (751,333) | (30,500) | (626,694) | (210,467) | **(867,661)** |
| Financial liabilities with other institutions | (3) | (3) | | | **(3)** |
| Dividends to be paid | (40) | (40) | | | **(40)** |
| Liabilities to non-controlling shareholders | (145,387) | (20,357) | (133,900) | (7,331) | **(161,588)** |
| Derivative instruments - liabilities | (103) | (103) | | | **(103)** |
| Commissions financial liabilities | (237) | (237) | | | **(237)** |
| Other financial liabilities | (11) | (11) | | | **(11)** |
| **Total** | **(921,027)** | **(59,284)** | **(776,533)** | **(224,096)** | **(1,059,913)** |

The difference between the amounts reported in the consolidated financial statements and total cash flow is mainly attributable to the computation of interest over the contractual duration on amounts due to banks, to noteholders and to liabilities to non-controlling shareholders.

**Financial instruments by category (IFRS 7 paragraph 8)**

As required by IFRS 7, paragraph 8, the Group's financial instruments have been identified by asset and liability category with respect to their classification in the statement of financial position.

| | 31 Dec 2019 | FVTPL | FVTCI | AC |
|---|---|---|---|---|
| **Current and Non current Financial Assets** | | | | |
| Financing fees prepayments - current and non-current | 1,114 | | | 1,114 |
| Other financial assets - current and non current | 72 | | | 72 |
| Trade receivables | 122,474 | | | 122,474 |
| Cash and bank balances | 36,412 | | | |
| **Total** | **160,072** | **0** | **0** | **123,659** |
| **Current and Non Current Financial Liabilities** | | | | |
| Financial liabilities with banks and other institutions - current and non current | 775,361 | 0 | 0 | 775,361 |
| Financing Fees - current and non current | (9,431) | 0 | 0 | (9,431) |
| Other financial liabilities - current and non current | 145,738 | 145,490 | 0 | 248 |
| Trade payables | 47,692 | | | 47,692 |
| **Total** | **959,360** | **145,490** | **0** | **813,869** |

**KEY TO FINANCIAL INSTRUMENT CATEGORIES**

**FVTPL =** **Financial assets and liabilities measured at fair value through profit or loss**
**FVTOCI =** **Financial assets and liabilities measured at fair value through other comprehensive income**
**AC =** **Financial assets and liabilities measured at amortised cost**

On account of the features of the financial assets and liabilities recorded in the financial statements and as shown by the above table, the fair value of many of these (current trade receivables and payables and current and non-current financial liabilities) do not differ from their related carrying amounts, with the exception of the Senior Secured Floating Rate Notes (€ 750 million) for which the market quotation at 31 December 2019 (approximately 100.75) corresponds to the best estimate of fair value at 31 December 2019.

**Levels of fair value hierarchy**

In relation to the financial instruments recorded in the balance sheet at fair value, IFRS 7 requires these amounts to be classified on the basis of levels of hierarchy that reflect the significance of the input used for the determination of fair value. The levels are the following:

- Level 1 – prices quoted by active markets for assets or liabilities being measured;
- Level 2 – inputs other than Level 1 inputs that are directly observable (prices) or indirectly (derived from prices) market inputs;
- Level 3 – inputs not based on observable market data.

| | Level 1 | Level 2 | Level 3 | TOTAL |
|---|---|---|---|---|
| **Financial Assets** | | | | |
| Other Investments | | | 308 | **308** |
| **Total** | **0** | **0** | **308** | **308** |
| **Financial Liabilities** | | | | |
| Liabilities to non-controlling shareholders | | | 145,387 | **145,387** |
| Derivative instruments - liabilities | | 103 | | **103** |
| **Total** | **0** | **103** | **145,387** | **145,490** |

There have been no significant transfers in the two years just ended from one level to another of the fair value categories presented.

The financial liability component Liabilities to non-controlling shareholders is the main category within level 3 of the fair value hierarchy and it consists of the fair value of the estimated liability arising from put and call or earnout agreements relating to various non-controlling interests in Group companies; the related fair value was determined considering the contractual hypotheses for the determination of the consideration. Changes in fair value, due both to timing and possible changes in estimated indicators that form the basis for the computation of the consideration, are recognised in the consolidated statement of profit or loss; the impact recognised in the 2019 consolidated statement of profit or loss arising from the change in the fair value measurement of the liabilities to non-controlling shareholders amounts to a decrease in their measurement of approximately € 960 thousand and an increase in their measurement of approximately € 39,862, whereas an amount of € 6,080 thousand was recognised as Other IFRS financial charges (see Note 7 Finance Income, Note 8 Finance Costs and Note 18 Net Cash/Debt).

Note that the discount rate applied for the measurement of the liabilities to non-controlling shareholders at 31 December 2019 is that adopted for the performance of Group impairment tests at 31 December 2019, that is, the rate that equates to the cost of debt (gross of the tax effect) of 5.81% at 31 December 2019. This cost of debt is deemed representative of TeamSystem Group's specific credit risk at the balance sheet date. The Group has also performed an analysis of the sensitivity of the carrying amount of the liabilities to non-controlling shareholders to interest rates applied. The results of this analysis are set out in the table below.

| Cost of Debt - gross of tax | 4,81% | 5,31% | 5.81% | 6,31% | 6,81% |
|---|---|---|---|---|---|
| Liabilities to non-controlling shareholders | 147,549 | 147,013 | **145,387** | 144,319 | 143,024 |

As a consequence of the uncertainty conditions generated by the Coronavirus emergency, the evolution of which and the related effects are not currently foreseeable, the Group believes that some effects may occur on the estimates used by management for determining the value of the put / call options and earn-outs due to non-controlling shareholders as at 31 December 2019 (such as, for example, the forecast plans used), which, at present, are difficult to determine, considering the climate of extreme uncertainty and the changing scenario.

## 29. GUARANTEES PROVIDED, COMMITMENTS AND OTHER CONTINGENT ASSETS AND LIABILITIES

### Guarantees provided

At 31 December 2019, the Floating Rate Notes were secured by a senior guarantee provided by TeamSystem Holding S.p.A. and were also secured by the following first ranking collateral:
1) pledge over all of the shares of TeamSystem S.p.A.;
2) assignment by way of security of intercompany loans receivable by TeamSystem S.p.A. from certain subsidiaries;
3) pledge over certain of TeamSystem S.p.A.'s operational bank accounts.

The New Revolving Credit Facility has also been secured by a guarantee provided by TeamSystem Holding S.p.A. and has also been secured, with priority ranking on a super senior basis, by the same collateral provided for the Floating Rate Notes.

### Other significant commitments and contractual rights

The Group companies are party to put and call option agreements in connection with shares/quotas held by non-controlling interest holders in the following companies and for the percentage interests as indicated below:

| Put / Call Options Outstanding | 31 Dec 2019 | 31 Dec 2018 |
|---|---|---|
| TeamSystem Communication S.r.l. | 35.00% | 40.00% |
| Danea Soft S.r.l. | 30.00% | 30.00% |
| Madbit Entertainment S.r.l. | 49.00% | 49.00% |
| Aliaslab S.p.A. | 49.00% | 49.00% |
| Evols S.r.l. | 49.00% | 49.00% |
| Netlex S.r.l. | 49.00% | 49.00% |
| Cassanova S.r.l. | 49.00% | 49.00% |
| Evolution Fit S.r.l. | 49.00% | 49.00% |
| Skylab S.r.l. | 40.00% | |
| Techmass S.r.l. | 49.00% | |
| TeamSystem Financial Value Chain S.r.l. | 49.00% | |
| TeamSystem AM HoldCo S.r.l. | 49.00% | |

The exercise price of these options will be determined based on normalised earnings parameters for the companies in question to which will be added the average (or actual) financial indebtedness for the period in which the put options may be exercised. The best estimate of the net present value of future disbursements has been recognised in the financial statements (Note 18) while the best estimate of future disbursements (by financial year) is indicated in the table shown in Note 28 – Liquidity risk – analysis of financial liabilities by due date of cash outflows.

**Lease disclosures**

| Euro Million<br>POSITION AT 31 DECEMBER 2019 | within 1 year | within 2 - 4 years | over 4 years | Total |
|---|---|---|---|---|
| Leases for operational premises | 4.5 | 11.6 | 6.2 | **22.3** |
| Leases for motor cars | 3.3 | 3.8 | 0.0 | **7.2** |
| **Total** | **7.8** | **15.5** | **6.2** | **29.5** |

**Other commitments and contingent assets/liabilities**

The Group companies, in the performance of their activities, are exposed to a series of legal and other risks. These risks relate to ongoing legal disputes (the outcome of which cannot be forecast with certainty) or claims made against Group companies for the recovery of damages suffered by third parties. An adverse outcome of these proceedings could lead to the payment of costs not covered (or not fully covered) by insurance with a consequent impact on the financial position. The Group, in accordance with opinions provided by its legal advisers, has made specific provision as part of the provision for risks and charges (Note 25) for litigation for which it is believed that a disbursement of resources is probable and for which the amount is capable of being reliably estimated. Based on the information available, there are no further potentially significant contingent liabilities that could lead to significant disbursements for the Group.

## 30. SUMMARY OF IFRS 12 DISCLOSURE REQUIREMENTS CONCERNING INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES WITH MATERIAL NON-CONTROLLING INTERESTS

**Investments in associates**

As required by IFRS 12, additional information concerning Investments in associates is provided in the table set out below.

| INVESTMENTS IN ASSOCIATES | Registered office | % held | ASSETS | LIABILITIES | EQUITY | REVENUE | PROFIT (LOSS) FOR THE YEAR |
|---|---|---|---|---|---|---|---|
| **Esaedro S.r.l. (*)** | Parma | 40.00 | 3,189 | 2,943 | 246 | 4,729 | 111 |
| **INTIT S.r.l. (*)** | Frosinone | 35.00 | 1,728 | 1,268 | 460 | 2,761 | 50 |
| **Cesaco S.r.l. (**)** | Vicenza | 48.00 | 415 | 240 | 175 | 548 | 23 |

**Investments in subsidiaries with material non-controlling interests**

As required by IFRS 12, a summary is provided below of information concerning the Group's principal subsidiaries with material non-controlling interests. The amounts shown in the following tables are before intercompany eliminations and consolidation entries.

Note that the percentage holding in the subsidiaries is the actual percentage held by the Group at the reporting date, without taking account of the impact of agreements entered into by the Group for the acquisition of non-controlling interests (further details are provided in the paragraphs on "Scope of consolidation" and on "Basis of consolidation").

| Euro thousands<br>DANEA SOFT | DANEA SOFT<br>---------<br>31 Dec 2019 | DANEA SOFT<br>---------<br>31 Dec 2018 | Change |
|---|---|---|---|
| % Held by Non Controlling Interests | 30.0 | 30.0 | 0.00 |
| Total Current Assets | 24,196 | 13,383 | 10,813 |
| Total Non Current Assets | 5,863 | 7,118 | (1,255) |
| Total Current Liabilities | 12,208 | 10,156 | 2,052 |
| Total Non Current Liabilities | 356 | 474 | (118) |
| Total Equity | 17,495 | 9,871 | 7,624 |
| Total Equity attributable to non controlling interests | 5,249 | 2,961 | 2,287 |
| Total Revenue | 17,988 | 7,761 | 10,227 |
| Operating Result | 13,435 | 4,601 | 8,834 |
| Profit (Loss) for the year | 9,290 | 3,250 | 6,041 |
| Profit (Loss) for the year - Non controlling Interests | 2,787 | 975 | 1,812 |

| Euro thousands<br>MADBIT | MADBIT<br>---------<br>31 Dec 2019 | MADBIT<br>---------<br>31 Dec 2018 | Change |
|---|---|---|---|
| % Held by Non Controlling Interests | 49.0 | 49.0 | 0.00 |
| Total Current Assets | 34,955 | 12,959 | 21,997 |
| Total Non Current Assets | 146 | 28 | 118 |
| Total Current Liabilities | 24,956 | 9,865 | 15,091 |
| Total Non Current Liabilities | 64 | 41 | 23 |
| Total Equity | 10,082 | 3,081 | 7,000 |
| Total Equity attributable to non controlling interests | 4,940 | 1,510 | 3,430 |
| Total Revenue | 17,614 | 7,539 | 10,075 |
| Operating Result | 9,981 | 3,774 | 6,206 |
| Profit (Loss) for the year | 8,000 | 2,673 | 5,328 |
| Profit (Loss) for the year - Non controlling Interests | 3,920 | 1,310 | 2,611 |

| Euro thousands<br>GRUPPO EUROCONFERENCE | GRUPPO EUROCONFERENCE<br>---------<br>31 Dec 2019 | GRUPPO EUROCONFERENCE<br>---------<br>31 Dec 2018 | Change |
|---|---|---|---|
| % Held by Non Controlling Interests | 3.1 | 3.1 | 0.00 |
| Total Current Assets | 23,516 | 22,199 | 1,317 |
| Total Non Current Assets | 675 | 976 | (301) |
| Total Current Liabilities | 8,174 | 9,495 | (1,321) |
| Total Non Current Liabilities | 384 | 489 | (104) |
| Total Equity | 15,632 | 13,191 | 2,441 |
| Total Equity attributable to non controlling interests | 489 | 413 | 76 |
| Total Revenue | 13,662 | 13,695 | (32) |
| Operating Result | 3,083 | 3,117 | (34) |
| Profit (Loss) for the year | 2,429 | 2,338 | 91 |
| Profit (Loss) for the year - Non controlling Interests | 76 | 73 | 3 |

| Euro thousands<br>ALIASLAB | ALIASLAB<br>---------<br>31 Dec 2019 | ALIASLAB<br>---------<br>31 Dec 2018 | Change |
|---|---|---|---|
| % Held by Non Controlling Interests | 49.0 | 49.0 | 0.00 |
| Total Current Assets | 27,557 | 22,326 | 5,231 |
| Total Non Current Assets | 1,176 | 1,214 | (39) |
| Total Current Liabilities | 2,485 | 2,653 | (167) |
| Total Non Current Liabilities | 679 | 633 | 46 |
| Total Equity | 25,569 | 20,255 | 5,314 |
| Total Equity attributable to non controlling interests | 12,529 | 9,925 | 2,604 |
| Total Revenue | 13,868 | 14,010 | (142) |
| Operating Result | 8,246 | 9,220 | (973) |
| Profit (Loss) for the year | 5,364 | 6,989 | (1,625) |
| Profit (Loss) for the year - Non controlling Interests | 2,628 | 3,425 | (796) |

| Euro thousands<br>SKYLAB ITALIA | SKYLAB ITALIA<br>---------<br>31 Dec 2019 | SKYLAB ITALIA<br>---------<br>31 Dec 2018 | Change |
|---|---|---|---|
| % Held by Non Controlling Interests | 40.0 | n.a. | n.a. |
| Total Current Assets | 8,067 | | 8,067 |
| Total Non Current Assets | 459 | | 459 |
| Total Current Liabilities | 1,772 | | 1,772 |
| Total Non Current Liabilities | 572 | | 572 |
| Total Equity | 6,181 | | 6,181 |
| Total Equity attributable to non controlling interests | 2,473 | n.a. | n.a. |
| Total Revenue | 4,650 | | 4,650 |
| Operating Result | 1,565 | | 1,565 |
| Profit (Loss) for the year | 1,235 | | 1,235 |
| Profit (Loss) for the year - Non controlling Interests | 494 | n.a. | n.a. |

## 31. RELATED PARTY TRANSACTIONS, DIRECTORS, STATUTORY AUDITORS AND TOP MANAGEMENT

### Emoluments

As required by IAS 24, the table below shows the emoluments payable for the year ended 31 December 2019 to the members of the Board of Directors, to the members of the Board of Statutory Auditors and to the Group's Top Management.

### Receivables, payables, revenue and costs arising from transactions with Barolo Lux 1 S.à.r.l.

There were no transactions with nor balances due from/to the parent Barolo Lux 1 S.à.r.l. during the course of 2019.

### Associates

A summary is provided below of balances at 31 December 2019 with associated companies and transactions therewith in the year then ended.

| | Trade and Other receivables | Financial receivables | 31 Dec 2019 | Trade and Other payables | Financial liabilities | 31 Dec 2019 |
|---|---|---|---|---|---|---|
| INVESTMENTS IN ASSOCIATES | | | | | | |
| Esaedro S.r.l. | 330 | | **330** | 4 | | **4** |
| INTIT S.r.l. | 127 | | **127** | 1 | | **1** |
| Cesaco S.r.l. | | | **0** | 7 | | **7** |
| **Total** | **457** | **0** | **457** | **11** | **0** | **11** |

| | Total Revenues | Finance income | 31 Dec 2019 |
|---|---|---|---|
| INVESTMENTS IN ASSOCIATES | | | |
| Esaedro S.r.l. | 1,079 | | **1,079** |
| INTIT S.r.l. | 0 | | **0** |
| Cesaco S.r.l. | | | **0** |
| **Total** | **1,079** | **0** | **1,079** |

| | Operating costs | Other provisions | Finance cost | Income taxes | 31 Dec 2019 |
|---|---|---|---|---|---|
| INVESTMENTS IN ASSOCIATES | | | | | |
| Esaedro S.r.l. | 164 | | | | **164** |
| INTIT S.r.l. | 93 | | | | **93** |
| Cesaco S.r.l. | 6 | | | | **6** |
| **Total** | **262** | **0** | **0** | **0** | **262** |

**Related companies**

TeamSystem Group has not been party to any transactions with related companies that are worth disclosing, other than those previously commented upon.

## 32. INDEPENDENT AUDITORS

In addition to the above information, note that fees payable to Deloitte & Touche S.p.A. as independent auditors, recognised by the Group in profit or loss in 2019 for the audit of the financial statements, amounted to approximately € 235 thousand.

## 33. MANAGEMENT AND COORDINATION

TeamSystem Holding S.p.A. is subject to management and coordination, in accordance with article 2497 et seq. of the Italian Civil Code, by Barolo Lux S.à.r.l.

The financial statements of Barolo Lux 1 S.à.r.l. for the year ended 31 December 2018 are set out below.

**Barolo Lux 1 S.à.r.l.**
**Bilancio di esercizio al 31 Dicembre 2018**

(Valori in Euro)

| ASSETS | 31 Dic 2018 | 31 Dic 2017 |
|---|---|---|
| Fixed assets | 641.471.030 | 641.471.030 |
| Current assets | 1.816.784 | 212.156 |
| Prepayments | 3.008 | 422 |
| **Total Assets** | **643.290.822** | **641.683.608** |

Valori in Euro

| LIABILITIES | 31 Dic 2018 | 31 Dic 2018 |
|---|---|---|
| Capital and Reserves | 643.851.307 | 641.992.795 |
| Profit (Loss) for the financial year | (670.308) | (389.488) |
| Creditors | 109.823 | 80.301 |
| **Total liabilities** | **643.290.822** | **641.683.608** |

Valori in Euro

| PROFIT AND LOSS ACCOUNT | 31 Dic 2018 | 31 Dic 2018 |
|---|---|---|
| Net Turnover | 45.312 | 36.519 |
| Other operating income | | |
| Raw material and consumables | (505.148) | (209.097) |
| Staff cost | (140.786) | (181.264) |
| Other operating expense | (75.478) | (29.250) |
| Income from other investments | | 280.000 |
| Other interest receivable and similar | 8.212 | 97 |
| Interest payables and similar | (280) | (284.355) |
| Tax on profit or loss | 2.675 | |
| Other taxes | (4.815) | (2.138) |
| **PROFIT OR LOSS** | **(670.308)** | **(389.488)** |

## 34. DISCLOSURE REQUIRED BY LAW 127/2017

With regards to the disclosure requirements introduced by Law 127/2017, during the course of 2019, TeamSystem Group did not benefit from any subsidies, economic advantages, grants or aid paid in cash or in kind that was not of a general nature and that did not take the form of consideration, remuneration or compensation.

## 35. SUBSEQUENT EVENTS

**Acquisition of Prosystem S.r.l. business segment**

With the aim of strengthening its presence in the management software market for tax consultants, in January 2020, TeamSystem S.p.A. acquired a business segment from Prosystem S.r.l., consisting, inter alia, of rights relating to management software for tax consultants and existing contractual relationships.

**TeamSystem 5 S.r.l.**

To increase its direct presence in Italy, in January 2020, TeamSystem S.p.A. acquired a controlling interest in TeamSystem 5 S.r.l., a newco to which Aldebra S.p.A. (a TeamSystem products dealer that markets and sells “Metodo”, "TeamSystem Digital", "ESA", "Alyante", "Lynfa" and "STR" software solutions) had previously transferred a business segment.

**Coronavirus emergency**
As previously indicated in the document, starting from January 2020, the national and international scenario has been characterized by the spread of Coronavirus and the consequent restrictive measures for its containment, put in place by the public authorities of the countries concerned. These circumstances, extraordinary in nature and extent, have direct and indirect repercussions on economic activity and have created a context of general uncertainty, the evolution of which and the related effects are not currently foreseeable. The potential effects of this phenomenon on the financial statements cannot be determined to date and will be subject to constant monitoring throughout the year. The Group, on the basis of these recent developments, is evaluating and implementing actions aimed at containing the possible negative effects that could arise from the further propagation of the national and international emergency.

**Milan, 3 March 2020**

**On behalf of the Board of Directors of**
**TeamSystem Holding S.p.A.**
**Managing Director**
**Federico Leproux**

**TEAMSYSTEM HOLDING S.P.A. – Società con Unico Socio**

**Sede legale a Pesaro – Via S. Pertini n. 88**

**Capitale sociale Euro 5.450.000,00 i.v.**

* * * *

**RELAZIONE DEL COLLEGIO SINDACALE ALL'ASSEMBLEA DEI SOCI AI SENSI DELL'ART. 2429, co. 2, c.c.**

All'Azionista unico,

Nel corso dell'esercizio chiuso al 31 dicembre 2019, la nostra attività è stata ispirata alle disposizioni di legge e alle *Norme di comportamento del Collegio sindacale emanate dal Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili.*

- **Attività di vigilanza**

Abbiamo partecipato all'attività degli organi sociali rispetto alla quale, in relazione alle operazioni deliberate e sulla base delle informazioni acquisite, non sono state riscontrate violazioni della legge e dello statuto, né operazioni manifestamente imprudenti, azzardate, in potenziale conflitto di interesse o tali da compromettere l'integrità del patrimonio sociale.

Abbiamo acquisito dagli Amministratori le informazioni sul generale andamento della gestione e sulla sua prevedibile evoluzione, nonché sulle operazioni di maggiore rilievo, per le loro dimensioni o caratteristiche, effettuate dalla Società.

Sulla base delle informazioni raccolte, possiamo riferire che tali fatti di rilievo e gli effetti che dai medesimi ne sono derivati trovano idonea espressione informativa nei documenti del Bilancio d'esercizio e del Bilancio consolidato della Società, in particolare nella Relazione sulla gestione che accompagna il Bilancio consolidato al 31 dicembre 2019.

Abbiamo acquisito informazioni dal Revisore legale dei conti e, da quanto da esso riferito, non sono emersi ulteriori dati ed informazioni rilevanti che debbano essere evidenziati nella presente Relazione.

Abbiamo acquisito conoscenza e vigilato, per quanto di nostra competenza, sull'adeguatezza e sul funzionamento dell'assetto organizzativo della Società, tenuto conto dell'attività svolta dalla Società, ed anche tramite la raccolta di informazioni dai responsabili delle funzioni aziendali, ed a tale riguardo non abbiamo osservazioni particolari da riferire.

Abbiamo acquisito conoscenza e vigilato, per quanto di nostra competenza, sull'adeguatezza e sul funzionamento del sistema amministrativo-contabile, nonché sull'affidabilità di quest'ultimo a rappresentare correttamente i fatti di gestione, tenuto conto dell'attività svolta dalla Società, ed anche mediante l'ottenimento di informazioni dai responsabili delle funzioni, dal soggetto incaricato della revisione legale dei conti, ed a tale riguardo non abbiamo osservazioni particolari da riferire.

Non sono pervenute denunzie ex art. 2408 c.c..

Non sono stati rilasciati dal Collegio sindacale pareri previsti dalla legge.

Nello svolgimento dell'attività di vigilanza, come sopra descritta, non sono emersi altri fatti significativi tali da richiederne la menzione nella presente Relazione.

- **Bilancio d'esercizio**

Abbiamo esaminato il progetto di Bilancio d'esercizio chiuso al 31 dicembre 2019 ed anche preso visione del Bilancio consolidato al 31 dicembre 2019 e possiamo al riguardo riferire quanto segue.

Non essendo a noi demandata la revisione legale del bilancio, abbiamo vigilato sull'impostazione generale data al Bilancio d'esercizio, sulla sua generale conformità alla legge per quel che riguarda la sua formazione e struttura. Osserviamo che, ricorrendo le condizioni di legge, il Bilancio d'esercizio al 31 dicembre 2019 è stato predisposto adottando i Principi contabili italiani approvati dall'OIC ed in vigore con riferimento all'esercizio in oggetto, ed in forma "abbreviata" ai sensi dell'art. 2435-bis, c.c.; il Bilancio consolidato al 31 dicembre 2019 è stato invece redatto adottando i Principi contabili internazionali Ias / Ifrs ed è accompagnato dalla Relazione sulla gestione predisposta dagli Amministratori.

Abbiamo verificato l'osservanza delle norme di legge inerenti alla predisposizione della Relazione sulla gestione al Bilancio consolidato, ed a tale riguardo non abbiamo osservazioni particolari da riferire.

Per quanto a nostra conoscenza, gli Amministratori, nella redazione del Bilancio d'esercizio al 31 dicembre 2019, non hanno derogato alle norme di legge ai sensi dell'art. 2423, comma 4, c.c..

Ai sensi dell'art. 2426, n. 6, c.c., abbiamo espresso il nostro consenso all'iscrizione nell'attivo dello stato patrimoniale del bilancio d'esercizio di costi di impianto e ampliamento per Euro/000 2,7.

- **Conclusioni**

Considerando anche le risultanze dell'attività svolta dal soggetto incaricato della revisione legale dei conti contenute nella relazione di revisione del bilancio d'esercizio e del bilancio consolidato, il Collegio sindacale non rileva motivi che possano ostare all'approvazione da parte dell'Assembla degli Azionisti del bilancio d'esercizio chiuso il 31 dicembre 2019, così come redatto dagli amministratori, né formula obiezioni in merito alla proposta presentata dal Consiglio di amministrazione per la destinazione del risultato d'esercizio.

Il Collegio sindacale approva all'unanimità.

Pesaro, lì 3 aprile 2020

**Per il Collegio Sindacale**

Dott. Claudio Sanchioni (Presidente)

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# INDEPENDENT AUDITOR'S REPORT
# PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

**To the Sole Shareholder of**
**TeamSystem Holding S.p.A.**

## REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

### Opinion

We have audited the consolidated financial statements of TeamSystem Holding S.p.A. and its subsidiaries ("TeamSystem Group" or the "Group"), which comprise the consolidated statement of financial position as at December 31, 2019 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of TeamSystem Holding S.p.A. in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of TeamSystem Holding S.p.A. or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

**Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10**

The Directors of TeamSystem Holding S.p.A. are responsible for the preparation of the report on operations of TeamSystem Group as at December 31, 2019, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the consolidated financial statements of TeamSystem Group as at December 31, 2019 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the consolidated financial statements of TeamSystem Group as at December 31, 2019 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
**Jessica Lanari**
Partner

Ancona, Italy
April 3, 2020

*This report has been translated into the English language solely for the convenience of international readers.*