

# **Interim Management Report of Itway Group as of September 30, 2013**

*This document was issued in original in Italian, and it has been translated into English language, solely for the convenience of international readers*

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## **Interim Management Report as of September 30, 2013**

The Interim Management report for the quarter as of September 30, 2013 of Itway Group, which has not been audited, was drafted pursuant to article 154 ter (Financial Reports) of Dlgs 58/1998 (T.U.F. Consolidated Law on Financial Intermediation), as well as Consob Communication DEM/8041082 of April 30, 2008. The Board of Directors authorized the publication of this interim management report on November 13, 2013.

In the current Interim management Report, the income statement analysis refers to the income statement for the nine-month period from January 1-September 30, 2013 and for the July-September 2013 quarter, compared with the same periods of 2012.

The balance sheet information refers to September 30, 2013 and to June 30, 2013 and is compared with the consolidated Financial Statements as of December 31, 2012

The accounting statements to September 30, 2013 were drafted before taxes.

The accounting principles, the evaluation criteria, the forecasts made, and the consolidation principles that are referred to in preparing the attached interim management report to September 30, 2013 are, as in the previous fiscal period, the international accounting principles defined by IFRS. In particular, these principles require forward looking statements. In the context of economic uncertainty illustrated below, please note that these forecasts have a component of risk and uncertainty. Therefore, it cannot be ruled out that in the near future the results achieved could be different from those forecast, therefore requiring revisions that today cannot be either estimated or forecast.

### ***Performance of the Group and the reference market***

As already stated in the Directors' report on operations as of June 30, 2013, in the context of an even more severe crisis in all Western countries prompted by the financial crisis at the end of 2008 that hit the Euro area in general and in particular the Mediterranean countries where the Group operates, the austerity policies implemented by the EU to defend the Euro and the financial stability of the Union, with the fiscal compact and the reduction of the deficit of the single countries, during 2012 and in the first months of 2013 had devastating effects on the real economies with significant contractions in GDP in all Countries and increases in the unemployment rates and in the number of people living under the poverty threshold. The austerity programs brought the economy, in particular of the Mediterranean countries of the EU, back by 30 years with depressive effects both on retail consumption and on investments by companies and public administrations.

Even though growth and employment have been brought, first timidly and then always more persistently, to the centre of Governments' attention, there are still no concrete policies to invert the trend. Meanwhile, the continued political instability in Italy does not allow to actively focus on the real economy of the Country.

After a first half of the year when the Itway Group maintained or increased its market share, improving significantly industrial profitability despite the unfavourable period, the following quarter, especially after the summer break, there was an outburst in operators' financial difficulties with a resulting sharp contraction in demand, especially in Italy, for the VAR SBU, and in Spain. In the quarter the contribution margin (revenues minus cost of products) was some 900 thousand Euro lower essentially offsetting the improvement posted in the first half of the year. A further aggravating factor on the operating result was the introduction of the so-called Fornero reform that prompted a significant increase in labour costs, which could not be transferred to orders acquired before the reform. The arduous results are faithfully reflected in the current Interim Management Report, but it is worth highlighting that the order backlog to date and the fact that the fourth quarter is historically the most profitable of the year lead us to expect a significant improvement of the full year result, confirming, at the higher end of the forecast range, a return to profit and at the lower end of the range a continued improvement of the recurring operating result.

Obviously, the above mentioned macroeconomic situation also impacted the performance of financial markets with banks, on one hand having to manage corporate crises, but on the other hand not inclined to give credit to companies deserving it. The situation is further aggravated by the fact that the banking system is preparing to introduce ahead of deadlines, at different times and with different modalities the Basel 3 directive. This has resulted in tension, especially in terms of funding costs, again with significant spreads compared with the previous year. For the Itway Group this translated into a higher and higher need to support clients in a credit crunch situation with a delay in payments while the main vendors are not inclined to take on the burden of the systemic situation, especially on the Italian and Spanish markets. In this situation, that is increasing the working capital absorbed, the Group is taking measures to contain payment conditions and to use more non-recourse factoring transactions. These measures have already given some results and the company hopes they will give even more tangible results in the short term.

General context, Performance of the ICT Market and of Financial Markets: The ICT market in Southern European countries suffered a further general slowdown, which was however less accentuated in those markets where the Group operates: this entailed an overall fall in IT demand in the different countries where the Group operates. In Countries like Spain and Italy the contraction is expected to be significant, estimated respectively at -2.5% and -4.6% (Source: IDC July 2013, Assinform October 2013). The tensions on the Euro and on sovereign debts are limiting the credit given to families and households with the Distributor needing to take on the burden to financially support the market. The management of working capital in this context is ever more strategic and the points described below focus also on reaching this objective.

Group's Industrial Policy: In the general context indicated in the previous points, the Group's industrial policy was to position itself and focus on higher value added business segments. The results of this policy, despite the overall difficult situation, were reached in Italy, Greece and Turkey

### ***Economic data***

Following is the consolidated condensed Income Statements compared with those of the same periods a year earlier:

(Thousand of Euro)	Nine months ending		Quarter ending	
	30/09/2013	30/09/2012	30/09/13	30/09/12
<b>Revenues</b>				
Revenues from sales and services	64,996	66,401	17,324	20,480
Other operating revenues	1,109	957	277	276
<b>Total revenues</b>	<b>66,105</b>	<b>67,358</b>	<b>17,601</b>	<b>20,756</b>
<b>Operating costs</b>				
Cost of products	51,593	53,249	13,680	15,939
Personnel costs	8,215	7,506	2,631	2,282
Other costs and operating charges	6,136	5,504	2,097	1,891
<b>Total operating costs</b>	<b>65,944</b>	<b>66,259</b>	<b>18,408</b>	<b>20,112</b>
<b>EBITDA</b>	<b>161</b>	<b>1,099</b>	<b>(807)</b>	<b>644</b>
Depreciations and amortization	442	510	149	192
<b>EBIT</b>	<b>(281)</b>	<b>589</b>	<b>(956)</b>	<b>452</b>
Net Financial charges	(1,237)	(1,233)	(419)	(458)
<b>Result before Taxes</b>	<b>(1,518)</b>	<b>(644)</b>	<b>(1,375)</b>	<b>(6)</b>

### *Group performance*

In the 9-month period that ended September 30, 2013 revenues fell some 1.9% compared with the same period of the previous fiscal year, while Ebitda was of 161 thousand Euro (1,099 thousand Euro in the same period of 2012); the Result before taxes is negative for 1,518 thousand compared with a negative result of 644 thousand Euro in the same period of the previous fiscal year.

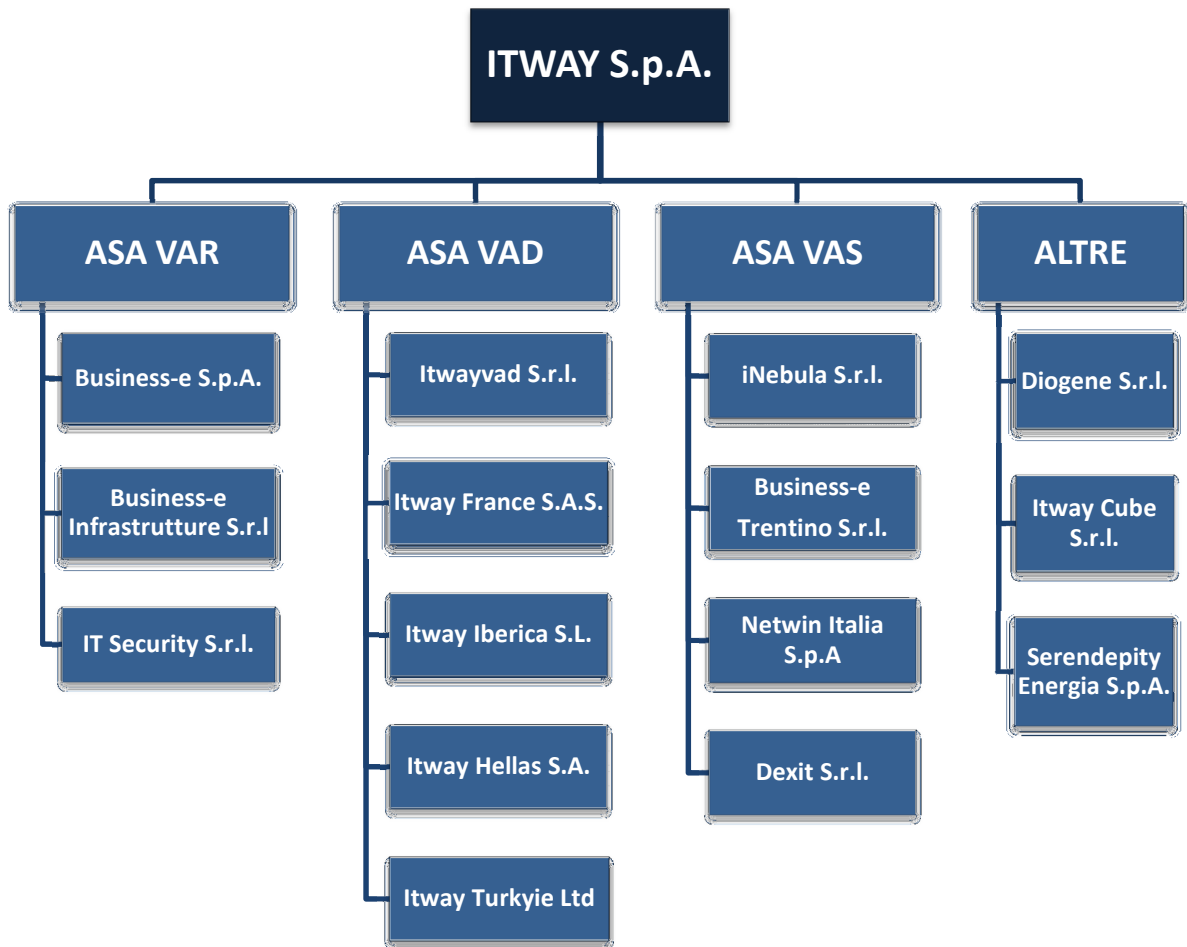
In the quarter that ended September 30, 2013, revenues fell some 15.4% compared with the same period of the previous fiscal year, while Ebitda was a negative 807 thousand Euro (in the same period of 2012 it was 644 thousand Euro); the Result before taxes is negative for 1,375 thousand Euro compared with a negative result of 6 thousand Euro in the same period of the previous fiscal year.

The reasons for such performance of the Group are detailed subsequently in the analysis of the performance of the single sector activities.

As mentioned in the previous reports, in the fiscal year ending September 30, 2011 the parent company Itway S.p.A. and its subsidiary Business-e S.p.A. underwent, in two distinctive occasions, a general tax audit by the Ravenna Provincial Office revenue service for the 2008 fiscal year. An appeal is underway for the two cases and the companies of the Group, supported by their tax consultants, do not deem that the conclusion of the administrative procedure can result in significant liabilities that are not already expressed in the current interim management report.

### *Structure and activities of the Group*

Following is the structure of the Itway Group, as of September 30, 2013:



The parent Company does not have secondary headquarters but it is active with commercial offices in Milan, and Rome at the following addresses:

- Milan - Via A. Papa, 30
- Rome - Edoardo D'Onofrio, 304

The Itway Group operates in three types of activities. The core business of Itway is value added distribution of “best of breed” software technology (the best among what is available, at all moments on the market); it also offers services and consultancy aimed at training and supporting companies in the e-business, e-security, Central Access Management, Internetworking and wireless sectors. These two sectors are in charge of two main strategic business units (SBU): VAD (Value Added Distribution) SBU, and the VAR (Value Added Reseller) . The VAD SBU also offers training services, technical assistance and certification developed by Itway Services, aimed to Value Added Resellers and System Integrators. The strong points of Itway lie in its capability of offering, in a complementary way, a vast range of software products and the consultancy support needed to guarantee its usage and integration. In addition there is an excellent capability to focus and interact with the client (accounting) and the quality of the training balanced to the specific needs of each client. The VAR SBU includes the Value Added Reseller, System Integration and Engineering activities. The VAS SBU, which is in the start-up phase, includes the Value Added Services activities.

Following is a list of fully consolidated companies on which Itway S.p.A exercises directly or indirectly control as it owns a majority of voting rights.

NAME	HEADQUARTERS	SHARE CAPITAL €	% Of direct ownership	% Of indirect ownership	% Of overall ownership
Itwayvad S.r.l.	Via L. Braille,15 48100 – Ravenna	10,000	100%	-	100%
Itway Iberica S.L.	Argenters 2, Cerdanyola del Vallès, Barcellona	560,040	100%	-	100%
Itway France S.A.S.	76, rue Thiers Paris	100,000	100%	-	100%
Itway Hellas S.A.	Atene Agiou Ioannou Str , 10 Halandri	846,368	100%	-	100%
Itway Turkiye Ltd.	Eski Uscudar Yolu NO. 8/18 – Istanbul	1,500,000*	0,07%	99.93%	100%
Itway Cube S.r.l.	Via L. Braille,15 48100 – Ravenna	10,000	100%	-	100%
Diogene S.r.l.	Via V. Mazzola, 66 00142- Rome	78,000	100%	-	100%
Business-e S.p.A.	Via L. Braille, 15 48100 – Ravenna	1,001,084	100%	-	100%
iNebula S.r.l	Via L. Braille,15 48100 – Ravenna	10,000	85%	-	85%

\* The values are expressed in Turkish lira (YTL)

Following is the list of the related companies, consolidated with the equity method, except for Itsecurity carried out at cost, since not yet operating:

NAME	HEADQUARTERS	SHARE CAPITAL €	% Of direct ownership	% Of indirect ownership	% Of overall ownership
Business-e Trentino S.r.l.	Via C. Battisti, 26- Trento	20,000	-	50%	50%
Be Infrastrutture S.r.l.	Via Trieste, 76 48100 – Ravenna	100,000	-	30%	30%
Itsecurity S.r.l.	Via A. De Gasperi, 320 – Bari	20,000	-	24.9%	24.9%

List of minority investments, carried out at cost:

NAME	HEADQUARTERS	SHARE CAPITAL €	% Of direct ownership	% Of indirect ownership	% Of overall ownership
Dexit S.r.l.	Via G. Gilli,2 – Trento	700,000	9%	-	9%
Serendipity Energia S.p.A	Piazza Bernini, 2 – Ravenna	1,117,758	-	10.5%	10.5%
Newtin Italia S.p.A	Via Martiri Baffè, 2/A – Sant'Agata sul Santeramo (RA)	5.000.000	-	10%	10%

### ***Net Financial Position***

Following is the net financial position as of September 30, 2013 compared with that as of June 30, 2013 and December 31, 2012:

	<b>30/09/2013</b>	<b>30/06/2013</b>	<b>31/12/2012</b>
Cash on hand	3,422	3,720	5,558
Current financial liabilities	(22,933)	(23,276)	(26,581)
<b>Current net financial position</b>	<b>(19,511)</b>	<b>(19,555)</b>	<b>(21,023)</b>
Non-current financial liabilities	(2,606)	(2,409)	(2,454)
<b>Total net financial position</b>	<b>(22,117)</b>	<b>(21,964)</b>	<b>(23,477)</b>

The cash on hand is mainly comprised of US dollars used to pay suppliers in the first days after the end of the period

The current net financial position is steady as a function of the seasonal cycle while the non-current financial position, in addition to reflecting debt towards the leasing company for the headquarters of the Group in Milan and the debt related to the purchase of the stake in Dexit, is higher due to a new 24-month financing.

### ***Sector Performance: Value Added Distribution***

Through the Value Added Distribution sector the Group operates in the distribution of specialized software and hardware, also distribute specialized certification services on software technologies as well as pre- and post-sales technical assistance.

The clients of the company are “System Integrators” and “Value Added Resellers” who sell products on the end market.

Following is the summary of the income statement of the VAD SBU compared with those of the same periods of the previous fiscal year.

( Thousand of Euro)	<b>Nine months ending</b>		<b>Quarter ending</b>	
	<b>30/09/13</b>	<b>30/09/12</b>	<b>30/09/13</b>	<b>30/09/12</b>
Revenues	52,808	52,288	13,674	15,044
EBITDA	(62)	(19)	(534)	(209)
EBIT	(423)	(434)	(653)	(367)
Result before Taxes	(1,395)	(1,338)	(977)	(702)

As already mentioned, during the quarter the improvements posted in the first half were reabsorbed with performances that varied greatly in the different Countries where the Group operates.

In Italy, the most important market for the Group, margins improved even though there was a slight reduction in volumes profitability improved with a positive result before taxes and better than both the earlier quarter and the nine-months of the previous fiscal year. The outlook for the end of the fiscal year is better compared with the previous full year.

The Turkish subsidiary, which is out of the Euro area, achieved significant increases in volumes and margins both in percentage terms and in absolute terms. The prospects for the end of the fiscal period are of an improvement compared with the previous fiscal period.

The Greek subsidiary, after the reorganization that was completed in the past few months, broke even despite the Country's difficult situation and is expected to return to profit at the end of the fiscal period.

The French subsidiary, which was subject to a further restructuring and focus on the higher value lines, significantly reduced losses and is expected to end the fiscal period with a loss lower than the previous fiscal period.

The Iberian subsidiary is the one that was most subject to the worsening of the macroeconomic situation with a contraction both in volumes and in margins; the subsidiary is undergoing a restructuring, in terms of focus on the lines being distributed and in terms of structure, the effects of which will be fully seen starting from 2014. The subsidiary is expected to end the fiscal year with a loss that is significantly higher than that posted in 2012 even though, considering the restructuring underway, it will be transitory and due to business trend. For this reason the Company does not expect the 2013 loss to constitute a so-called trigger event so as to entail at this time the need to carry out an impairment test.

Overall, the Value Added Distribution sector is expected to end the fiscal year with an improvement compared with the previous one of all profitability indicators, without however reaching a positive result due to what was previously indicated.

The characteristic structure of variable costs and revenues of the companies in the VAD SBU remained broadly unchanged.

### ***Sector performance: Value Added Reseller***

Through the **Value Added Reseller SBU** the Group operates in the following market segments:

- Professional services and production of solutions and software technologies for e-business;
- Distribution and integration of products and services for the logical security of information systems;
- Professional services as system integrator and centralization of applications.



Following is the condensed income statement, compared with those of the same periods of the previous fiscal year:

(Thousand Euro)	Nine months ending		Quarter ending	
	30/09/13	30/09/12	30/09/13	30/09/12
Revenues	13,297	15,070	3,927	5,712
EBITDA	223	1,118	(273)	853
EBIT	142	1,023	(303)	819
Result before Taxes	(123)	694	(398)	696

The performance of the VAS SBU reflects, especially in the quarter, the slowdown in demand generated by the instability in Italy and the significant increase in labour costs deriving from the conversion of atypical contracts into employee status and the hiring of staff for an important order, which was awarded at rates that did not take into consideration the greater rigidity of the labour market generated from the so-called Fornero reform. However thanks to the current order portfolio and the negotiations underway, the Company estimates to end the fiscal period with a positive result and that is higher than the one posted in the previous year.

### ***Sector performance: Other sectors***

In 2012 the Itway Group entered into other sectors that are related to but do not coincide with the historical ones defined as VAD and VAR. These sectors do not yet make a relevant contribution to the 2013 results (and therefore are not reported in the reporting by sector), but they are important in terms of strategy to strengthen the business segments.

The new sectors are:

- Gaming through a minority investment in a company that holds the concession granted by the Autonomous Administration of the State Monopolies (AAMS) for legal gambling (Newtin Italia S.p.A.). The investment of the Itway Group focuses only on the technological support in carrying out and managing the information network to connect the installed gaming machines with AAMS. As of September 30, 2013 the concession was granted and the minimum number of expected gaming machines were installed and are operational on the new telematic network;
- Cloud information services: Managed Services for SMEs in network and cloud environment in the areas of Security, Storage Management, Video Management, Business Continuity, Green IT, and Energy Recovery. As of September 30, 2013 commercial activity has begun, generating the first revenues;
- Assisted services in N+SOC solutions to check networks.

### ***Subsequent events***

There were no significant events after the end of the fiscal period.

### ***Foreseeable evolution of operations***

As already mentioned, despite some forecasts in the last quarter of 2012 showed a slight recovery for the Euro area in 2013, the latest predictions are still for a substantial stagnation and for Italy and Spain even a de facto recession with an expected recovery starting from 2014.

The hoped for injection of liquidity into the system by the Public Administration to date has not taken place and, considering the uncertain political situation, there is no indication of when this may occur. Much will depend on the Government, considering that to date the Public Administration, in addition to being a major debtor towards companies, for some 100 billion Euros, continues not to invest in IT and innovation like other European Countries despite the much spoken of Digital Agenda whose implementation would be welcomed as it would bring significant savings in Current Public Spending favouring the efficiency of services.

The Itway Group has been, for some time now, well positioned in value markets like Security of information systems, Virtualization (VAD SBU, VAR SBU) and the new and emerging Cloud Computing (VAS SBU) and this allows us to say that in these markets we will continue to operate with a role of primary player in Southern Europe. Some markets like Cloud Computing are growing and the Group will act as a start-up player and as a concentrating element of initiatives underway through the growing VAS SBU.

In these markets we will work especially on increasing our market share also thanks to the introduction of new products and on recovering profitability. Along with these measures we will work on significantly containing net working capital.

In general terms, summing up the detailed forecasts indicated above, we expect to end the fiscal period with a consolidated result that at a Group level should improve from the recurrent result of the previous fiscal year with scenarios, even though prudential, of a return to profit despite all the duly indicated difficulties.

### ***Significant, non-recurring, atypical and/or unusual transactions***

On September 16, 2013 the sale of 661,765 own shares, equal to 8.37% of share capital to Sky-Nectics S.A., part of the Libanica S.A. group that is active in the IT security sector, was completed with the agreed payment of Euro 1,125,000.

In addition to this, during the period ending September 30, 2013 there were no significant and/or non-recurring, and/or atypical and/or unusual transactions with third parties or among the companies of the group, as defined by Consob Communication of July 28, 2006.

### ***Relationships with related parties***

During the fiscal year, the relationship between Itway and related parties were essentially comprised of ordinary commercial relationships, regulated at market conditions.

### ***Research and Development activity***

In the period there were no significant investments in research and development.

### ***Own shares***

The parent company on September 30, 2013, after the previously mentioned sale, owned No. 247,039 own shares (equal to 3.12% of share capital) for a nominal value of 123,519 Euro; during the quarter 87,765 own shares were purchased (equal to 1.11% of share capital) for a nominal value of 43,882.50 Euro and a cost of some 120 thousand Euro.

Ravenna, November 13, 2013

For the Board of Directors

**Statement of the manager mandated to draft the accounting documents pursuant to art. 154-bis comma 2 of D.Lgs. No. 58/1998 (Testo Unico della Finanza – Consolidated Law on Financial Intermediation)**

I, Sonia Passatempi, the manager mandated to draft the company's accounting documents, pursuant to comma 2 of art. 154-bis of D.Lgs. No.58/1998 (Testo Unico della Finanza), declares that the information contained in the current quarterly report of the management of the Group corresponds to the documented results, books and accounting of the Company.

Ravenna, November 13, 2013

The Mandated Manager  
Sonia Passatempi