

TXT e-solutions S.P.A.

Head office in Via Frigia, 27; Milan, Italy

Share capital €1,250,000; wholly paid-up

Annual report of the Board of Directors regarding the company's system of corporate governance and observance of the Code of Corporate Governance as defined by section IA.2.10 et seq. of the Istruzioni al Regolamento del Nuovo Mercato Organizzato e Gestito da Borsa Italiana S.p.A. (Instructions to the Rules of the Nuovo Mercato Organized and Managed by Borsa Italiana S.p.A.).

To our shareholders,

The Board of Directors of TXT e-solutions S.p.A. (hereinafter the "Company") hereby presents its annual report comparing the system of corporate governance adopted by the Company and the indications provided in the Code of Corporate Governance (hereinafter also "the Code") as revised in July 2002.

The board has adopted a system of corporate governance which is in line with the principles found in the Code, with the objective of providing proper, transparent corporate information and of creating shareholder value through the proper functioning of the Company. Below is a description of the steps taken by the Company on the issue of corporate governance.

1. The Board of Directors

1.1 Role and functions

In accordance with the recommendations contained in Article 1 of the Code, the Board of Directors plays a fundamental role in the management of the Company by performing functions of strategic guidance, coordination, and verification of the controls needed to monitor the performance of the Company itself.

The activities which are the sole responsibility of the Board of Directors are defined both by company bylaws and corporate procedures. In particular, the board has been granted all powers necessary for the ordinary and extraordinary administration of the Company and, in particular, has the right to perform all acts deemed appropriate in order to achieve corporate goals, with the sole exception of those acts which the law reserves exclusively for company shareholders. In particular, the Board of Directors:

- i) assigns and revokes powers to the managing director and defines related limits and procedures;
- ii) assumes obligations outside of ordinary company administration not specified in approved budgets;
- iii) examines the proposals of the Remunerations Committee and, in agreement with the Board of

- Statutory Auditors, determines the remuneration for the Chairman of the Board of Directors;
- iv) examines and approves transactions of particular financial significance, and authorizes the acquisition and disposal of equity investments, companies, or divisions; evaluates potential real estate transactions and the sale of assets deemed to be significant;
 - v) determines the guidelines and criteria for identifying significant transactions of all types;
 - vi) oversees general operations based on the information provided by the managing director and the Internal Auditing Committee;
 - vii) defines the general organizational structure of the Company and that of the Group, and verifies their appropriateness;
 - viii) reports to the shareholders.

1.2 Composition of the Board of Directors

In accordance with the company bylaws, the Board of Directors is composed of at least 3 and no more than 9 members. Board members remain in office for three fiscal years and may be re-elected. The current board has 5 members, including 3 executive directors and 2 independent, non-executive members who, as recommended in Article 3 of the Code, do not have financial relations with the Company, its subsidiaries, its executive directors, or the shareholders who control the Company, to such an extent that these relations could compromise their ability to make unbiased decisions. Furthermore, these board members do not hold, either directly or indirectly, equity stakes sufficient to exercise control over the Company, nor are they a part of shareholder agreements to control the Company.

All members of the Board of Directors shall remain in office until the approval of the financial statements for the year ending December 31, 2004.

The current members of the Board of Directors are as follows:

- i) Alvise Braga Illa, Chairman of the Board;
- ii) Alberto Daprà, Managing Director;
- iii) Paolo Enrico Colombo, executive director;
- iv) Adriano De Maio, independent non-executive member;
- v) Mario Miscali, independent non-executive member.

The Board of Directors acts and deliberates based on all facts available to them, in full autonomy, and in the general interests of the shareholders so as to maximize shareholder value, which is an essential prerequisite for a beneficial relationship with the financial markets. All members of the board also dedicate the time necessary to fulfill their responsibilities effectively, as they are well aware of the responsibility inherent to

their office.

1.3 Non-executive members of the board

The Board of Directors includes two non-executive members (in that they have no direct powers over company operations or company management), so as to ensure that their expert opinions can have a significant effect on the decisions made by the board. These non-executive members contribute their specific technical and strategic knowledge and experience to the deliberations of the board in order to promote an analysis of the issues from different points of view and to come to decisions which are well thought out and in line with the company's best interests.

In that regard, it should be specified that the assignment of specific powers in situations of particular urgency to members of the board without executive powers does not make them "executive" members as defined for the purposes of this report.

1.4 Independent board members

The non-executive members of the board also include two independent members (Adriano De Maio and Mario Miscali).

In accordance with the provisions of Article 3.1 of the Code, independent members are those who: i) do not have, and have not recently had, either directly, indirectly, or on behalf of others, financial relations with the Company, its subsidiaries, the executive directors, or the controlling shareholder to such an extent that these relations could compromise their ability to make unbiased decisions in company administration; ii) do not hold, either directly, indirectly, or on behalf of others, equity stakes sufficient to exercise any control over the Company, nor are they a part of shareholder agreements to control the Company; iii) are not close relatives of the executive directors of the Company or of others who are in the situations described under points (i) and (ii) above.

In accordance with the provisions of Article 1(3) of the Code, below is a summary of the administrative or auditing positions in other publicly listed companies, financial corporations, banks, insurance companies, or other companies of significant size held by the independent, non-executive members.

Adriano De Maio:

Impregilo S.p.A. - member of the board

Saes Getters S.p.A. - member of the board

Telecom Italia Media - member of the board

Mario Miscali:

Nextra Investment Management sgr - Chairman of the Board of Directors

1.5 Powers of attorney and signatory powers

On May 14, 2002, following the nomination of the Company's new Board of Directors – approved by the shareholders on April 29, 2002 – the Board of Directors confirmed Alberto Daprà as managing director of the Company and Alvisè Braga Illa as Chairman of the Board.

In that regard, it should also be noted that the Chairman of the Board of Directors has been granted special powers with regard to corporate strategy and communication, as well as institutional relations and all powers of ordinary and extraordinary administration related to the management of the Company itself, with the exception of the purchase and sale of real estate.

The Chairman and the Managing Director, each in accordance with their respective responsibilities, report to the board on the activities performed in executing their powers in conjunction with the meetings of the board, and also provide sufficient information to keep the board abreast of atypical transactions or transactions with related parties which are not required to be authorized by the Board of Directors.

In that regard, we feel we should describe the powers granted to the executive members of the board, particularly those assigned to the managing director, Alberto Daprà, and board member Paolo Colombo.

The individual signatory powers of the Company's managing director include the following:

- a) To stipulate and sign contracts in the name and on behalf of the company for the purchase or lease of moveable property, including those which require public registration, as well as for procurement contracts and settlement agreements; to grant agency and sub-agency agreements and nominate agents;
- b) To participate in auctions and tenders, both public and private, for the provision of services of all kinds;
- c) To open and close current accounts with banks, to request ordinary financing and lines of credit, both medium and long-term of any kind and dimension, from financial institutions, and to sign all related documentation as required and approve contract clauses;
- d) To collect all amounts of any kind payable to the company by all organizations, including national, regional, provincial, and city governments; to issue related receipts and settlement documents; to issue, endorse, and collect bills, notes, and checks, including the use of overdraft, as long as it is within the limits of the related lines of credit granted to the company; to execute any transaction for the use of credit granted by banks and, in particular, to present commercial effects to be discounted and cashed, using the net proceeds; to perform all acts and transactions with all public and private offices with the right to receive values, packages, letters, etc.; to execute all procedures and transactions, including with the banking organizations and note-issuing authorities, as well as

authorizing constraints and releases;

- e) To represent the company in relation to any administrative authority; to sign and initiate suits, appeals, and proceedings of any kind; to recommend and support administrative and legal action in bankruptcy proceedings, settlements, and moratoriums; and to sign tax declarations and certificates;
- f) To nominate, hire, promote, suspend, and terminate personnel at all levels;
- g) To sign agreements of association, temporary groupings of companies and consortia for participation in tenders of public and private organizations;
- h) To nominate proxies for all or a part of the functions listed above;
- i) To sign all deeds related to the above on behalf of the company, placing the company name before the personal signature.

Board member Paolo Colombo has the following free and individual signatory powers:

- a) To sign, endorse, and collect letters of credit and bank notes;
- b) To request and collect any amounts payable to the company; to endorse any check or bill to be cashed; to provide receipts for all amounts or values received by the company; to protest checks and bills;
- c) To sign proposals and accept orders for jobs entrusted to the company;
- d) To manage the distribution of goods and services as part of the company's object;
- e) To represent the company in import-export transactions, all procedures with the customs office, the Bank of Italy, and the Ministry of Foreign Trade, or any other body specified by the State.
- f) To make proposals to participate in public tenders and/or auctions;
- g) To nominate, hire, suspend, and terminate employees below the level of senior management;
- h) To sign agreements of association, temporary groupings of companies and consortia for participation in tenders of public and private organizations;
- i) To stipulate and sign tender agreements for the provision of services and to participate in the related tender processes regarding all types of government organizations.

1.6 Method of operation for the Board of Directors

During fiscal year 2003, the Board of Directors held seven meetings with the regular participation of its members, and with the presence of the Board of Statutory Auditors, as well as that of the external auditors (even if optional). Absences were limited and always justified. Approximately the same number of meetings are expected for the year in progress, as this is deemed to be sufficient under normal circumstances. The company bylaws do not specify a minimum frequency for board meetings.

The activities of the Board of Directors are coordinated by the Chairman. The Chairman, with the help of the Secretary, convenes and conducts the board meetings. In order for the board to be able to deliberate on issues brought before it, with the exception of situations of particular urgency, the Chairman ensures that the individual members of the board and those of the board of statutory auditors receive all necessary information prior to each board meeting. The members of the board are given sufficient advance notice of the dates of the meetings of the board and the topics on the agenda, so that they will be in a position to make an informed contribution in the discussion of such matters.

1.7 Nomination of the members of the board

In order for a person to be nominated to the board of directors, a proposal must be submitted to the Company in writing at least 15 days prior to the meeting of shareholders. Such proposals, which must be deposited in the Company's head office for the 15 days prior to the meeting of shareholders to be viewed by all shareholders who should request it, must contain all personal details of the person to be nominated and fully describe the personal and professional qualifications of the candidate, with express mention of any positions held with other companies, any significant stakes held directly or indirectly in the Company and/or in other companies, as well as personal and financial relations with the Company and its shareholders who directly or indirectly hold a controlling interest. If the candidate is to be an independent member, this is to be expressly indicated in the nomination proposal.

In that regard, it should be specified that the Board of Directors has not established an internal committee for the nomination proposals, as this function, in part in consideration of the composition of the body of shareholders and the size of the board, is performed by the board directly.

2. The system of remuneration and the Remunerations Committee

2.1 The system of remuneration

With regard to the determination of the compensation paid to senior management, uniform criteria have been adopted for the remuneration of those who are shareholders of the Company and those who are not, and for the executive members of the Board of Directors, with the exception of the Chairman. In addition, retribution is divided into fixed and variable components, with the latter being linked to the achievement of specific individual and company objectives, so that remuneration is in line with normal market values.

2.2 The Remunerations Committee

In implementing the provisions of Article 8 of the Code, the Board of Directors has established an internal

Remunerations Committee, authorized on June 8, 2000, which is composed of three members: Paolo Enrico Colombo and the two independent members specified above. The primary purpose of this committee is to recommend to the Board of Directors the most appropriate criteria and procedures for establishing the level of compensation for senior management and to verify that the criteria adopted by the Company to determine the remuneration of personnel, including senior management, are properly established and applied, as well as in line with market averages and the company's growth objectives.

During fiscal year 2003, the committee met once on December 16, 2003, and it is expected to meet at least twice in 2004.

3. The system of internal controls and the Internal Auditing Committee

3.1 The system of internal controls

Based on Article 9.1 of the latest edition of the Code, the system of internal controls can be defined as follows: the system of internal controls is the set of processes aimed at monitoring the efficiency of company operations, the reliability of financial information, the observance of laws and regulations, and the protection of company assets.

In accordance with the new provisions included under Article 9 of the Code, the system of internal controls involves: i) the Board of Directors, which establishes the guidelines and periodically verifies the system's appropriateness and actual functioning by nominating an Internal Auditing Committee and through the periodic reporting that this committee provides; ii) the managing director, who is responsible for implementing the guidelines defined by the Board of Directors and, in particular, for identifying the company's main risks with the help of the people responsible for internal controls, whom the managing director is to nominate; iii) the Internal Auditing Committee, which provides consulting and recommendations and assesses the appropriateness of the accounting principles adopted by the Company; iv) the people responsible for internal controls, who verify whether, within company processes, the "line" controls are suited to the potential risks and also provide suggestions to the committee and to management, as necessary, regarding the adoption of any measures aimed at eliminating financial risks and at improving the efficiency and effectiveness of company processes.

On December 16, 2003, Gianmarco Scotti, formerly responsible for investor relations for the company, was nominated head of internal controls.

3.2 The Internal Auditing Committee

In accordance with Article 10 of the latest edition of the Code, the Company has established an Internal

Auditing Committee with the primary purpose of: i) assisting the Board of Directors in fulfilling its responsibility to ensure that the company's main risks have been appropriately identified and managed; ii) evaluating the plan proposed by the heads of internal controls and receiving their periodic reports; iii) contributing to the evaluation of the appropriateness of the accounting principles adopted; iv) evaluating the working plan and the results presented by the external auditors; v) reporting to the Board of Directors on the activities performed and on the appropriateness of the system of controls; vi) performing any other tasks assigned by the Board of Directors, particularly with regard to relations with the external auditors.

Currently, the Internal Auditing Committee is composed of the following members of the board:

- i) Adriano De Maio, independent non-executive member and committee chairman;
- ii) Paolo Enrico Colombo, executive director;
- iii) Mario Miscali, independent non-executive member.

During fiscal year 2003, the committee held one meeting in December, which included the attendance of the head of internal controls and the members of the Board of Statutory Auditors, and the committee is expected to meet at least twice in 2004.

3.3 Manual of Internal Controls

Version 1.1 of the Manuale Operativo del Sistema di Controllo Interno (Operating Manual for the System of Internal Controls) has been prepared and approved, and will be subject to review at least once per year.

4. Handling of confidential information and the code of conduct regarding internal dealing

4.1 Handling of confidential information

The procedures defined for the management of confidential information call for the Board of Directors to approve press releases regarding the approval of quarterly, half-year, and annual financial statements and other decisions and extraordinary transactions, without prejudice to the powers granted to the Chairman and Managing Director in the event of approval of urgent communications required by the competent authorities. The process of issuing price-sensitive press releases follows the recommendations of CONSOB and Borsa Italiana S.p.A. by using dedicated communication tools (network information systems and fax), access to which is limited to the company figures involved in the process.

All members of the board are required to ensure the confidentiality of documents and information acquired in the performance of their responsibilities, as well as to follow the procedures adopted for the release of such documentation and information.

The Chairman of the Board oversees the application of prevailing laws and regulations regarding corporate

information, and arranges and coordinates all appropriate actions regarding internal structures. Considering the Company's relatively limited size and lack of organizational complexity, the board does not currently feel it is necessary to adopt internal procedures for the release of price-sensitive documents and information.

4.1 The code of conduct regarding internal dealing

On December 19, 2002, in accordance with the provisions of Article 6.1 of the Code, as revised in July 2002, the Board of Directors approved the Codice di Comportamento sull'Internal Dealing (Code of Conduct regarding Internal Dealing, hereinafter also "the Code of Conduct"), in observance of the provisions of Articles 2.6.3, 2.6.4, and 2.6.4.bis of the rules of the Nuovo Mercato regulated and managed by Borsa Italiana S.p.A.

In particular, the Code of Conduct requires that the Company notify the market of transactions executed by so-called "significant persons" ("persone rilevanti"; i.e., the executive directors and statutory auditors) involving the Company's listed financial instruments.

In accordance with the Code of Conduct, as of January 1, 2003, the Company is to notify the market of the transactions executed by each significant person in each calendar quarter, which are of an amount, either individually or collectively, in excess of €50,000 per person. Such notification is to be made within ten trading days of the end of each calendar quarter.

In the event a significant person should execute a transaction of an amount greater than or equal to €250,000, including the other transactions executed by the person in the quarter in question and not yet reported, market notification is to be done immediately and, in any event, within two trading days of the conclusion of the transaction.

The Code of Conduct is available on the Company's web site at www.txt.it.

5. Transactions with related parties

Based on International Accounting Standard (IAS) no. 24, "related parties" includes consolidated subsidiaries in which the Company holds a 100% equity stake. The Company has relations with its subsidiaries in connection with recurring commercial transactions based on contracts which contain no unusual clauses or clauses which are not in line with standard market practice for similar transactions, in that such transactions are conducted at arm's length.

Considering the nature of the transactions and the general observance of market practice, the board has not deemed it necessary to request the opinion of an independent expert to assess the economic fairness of these transactions (Article 11.3 of the Code).

6. Relations with institutional investors and with the body of shareholders

The Company believes that continuous dialogue with institutional investors, the body of shareholders, and with the public at large is an objective of key importance for publicly listed corporations. In order to facilitate this dialogue, which is to be carried out in accordance with the rules governing the release of corporate documents and information, a number of internal structures have been established: (i) an office of investor relations which reports to the Chairman of the Board of Directors and works in close coordination with the office of Administration, Finance and Control; and (ii) a press and communications office operating under corporate marketing, which manages relations with the media. In addition, communication with shareholders is conducted through the Company's web site (www.txt.it), which provides financial information (quarterly, half-year, and annual reports), an archive of all press releases – both price-sensitive and not – issued by the Company, a calendar of corporate events, and tools of communication that make it possible to notify the market in a proactive manner of financial and corporate news concerning the Company.

7. Meetings of shareholders

The reference in the Code of Corporate Governance to the fact that meeting of shareholders is a key opportunity to instill a mutually beneficial dialogue between shareholders and the Board of Directors is an assessment with which the Company agrees completely, so we have deemed it appropriate not only to ensure the regular participation of members of the board in the meetings of shareholders, but also to take specific steps to demonstrate proper appreciation of the shareholder system.

To that end, the shareholders, in their meeting of April 7, 2001, approved the introduction of regulations aimed at guaranteeing the orderly, effective execution of the meetings of shareholders, respecting the right of each shareholder to request clarification regarding the various topics discussed, to express their own opinion, and to make recommendations.

8. Statutory auditors

The nomination of the members of the Board of Statutory Auditors is governed expressly by the company's bylaws. In particular, the statutory auditors are nominated on the basis of a sequentially numbered list of candidates presented by the shareholders. The list has two sections: one for the candidates for regular auditor, and one for the candidates for alternate auditor.

Only those shareholders who, either individually or as a group, hold total shares with voting rights representing at least 2% of all capital with such rights may present lists of candidates. Individual shareholders or the members of a group of shareholders may not present more than one list, either directly or through an intermediary or trust company, nor may they vote for other lists. No candidate appearing on more

than one list will be eligible for nomination. Candidates who already serve as statutory auditors for five other publicly listed companies or who do not meet the prerequisites established by applicable regulations may not be placed on the lists presented.

The lists must be deposited in the Company's head office at least ten days prior to the date of the first call of the meeting of shareholders. At the same time, declarations for each candidate must also be filed whereby they accept their candidacy and declare that they are eligible for and compatible with the position in question and that they meet the requirements for their respective positions as defined by law and by the company's bylaws, and also provide complete information regarding the personal and professional qualifications of each candidate. Lists which do not respect these requirements will not be accepted. In accordance with the provisions of Article 23 of the company's bylaws, the procedures for electing the statutory auditors are as follows:

- two regular auditors and one alternate are selected in the order in which they appear on the list which receives the most votes;
- the remaining regular auditor and one more alternate are selected in the order in which they appear on the list which receives the second highest number of votes;

The first regular auditor on the list that receives the highest number of votes becomes the chairman of the Board of Statutory Auditors.

The current board was nominated by the shareholders on April 29, 2002, in accordance with the procedures described above, and its members are to remain in office until the approval of the financial statements for the year ending December 31, 2004. The current members of the Board of Statutory Auditors are as follows:

- i) Raffaele Valletta, chairman of the board;
- ii) Francesco Cimmino, regular auditor;
- iii) Fabio Palmieri, regular auditor.

Milan, February 25, 2004

The Chairman of the Board of Directors

Alvise Braga Illa