



# ANNUAL REPORT 2007

**TXT** e-solutions



On the cover:

Giuseppe Spagnulo

La rosa dei venti 2003, steel

cm 99 x 135 x 100 approx

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**D**ear Shareholders,

In 2007, we have taken important steps to strengthen the competitive position of the company in Italy and internationally, particularly in areas of innovation. In fact, significant financial and human resources were allocated to innovation and concentrated in markets in which the TXT Group leads in product and solution technology, in client service capacity and in the expertise of our personnel.

**Group innovation in 2007 was targeted at:**

- The new TXTPerform 2008 product, announced at the end of 2007, which combines in one single application Business Intelligence and Demand & Supply Chain Management software. TXTPerform 2008 permits greater visibility and control on the entire Supply Chain; Business Intelligence provides performance indicators and analysis tools to identify links between cause and effect variables and to support the best possible business results.

TXTPerform 2008 has significant competitive advantages, particularly in specialized sectors, where it operates at the cutting edge, in the areas of Luxury, Fashion & Apparel, specialized Retail and Consumer Goods (CPG). Time to “go live”, costs and Return on Investment of TXT solutions are extremely attractive compared to competitors and to generic suppliers.

- The new TXT Polymedia Video platform, for distribution of digital video in business and the entertainment environment. TXT Polymedia has been enriched with new functions, developed for easier use and content sharing. This new functionality enables media, telecoms and “service provider” companies in developing new web and mobile business models, in differentiating and increasing the value of TV and IPTV offerings, in extending these to interactivity and to the mobile world. Research and Development investments in

2007 amounted to Euro 7.6 million, accounting for 13.7% of revenues, of which 3.6 million Euro expensed in the year for experimentation of new technologies and the development of prototypes. The Group has collaborated with numerous Universities and Research Institutes and participated in European research projects.

In addition to technological excellence, we are offering our customers outstanding client service capability. TXT has high levels of specialized expertise in the markets in which we operate and in which we are capable of offering our clients in-depth know-how of the business processes and of best practices. The cooperation with our clients is continuously enriching our offering with greater added value and setting it apart from the competition.

The third pillar of the TXT offering resides in the high level of technical and operating skills of our personnel, who are the most important resource for maintaining and strengthening our competitive position. Our personnel is selected and trained in accordance with the most stringent international standards.

In order to jointly achieve long-term growth objectives and operating efficiencies, in 2007 TXT divisions were regrouped in three business areas, based on operating compatibility and technological synergy.

## LETTER TO SHAREHOLDERS

These areas are:

- **TXTPerform.** It includes all group activities in the software and services for Demand & Supply Chain Management worldwide.
- **TXT Polymedia.** It includes all group activities in digital content and new media management for Media, Telcos and Industry markets, both with our own products and with specialized third party solutions and services. This division includes long-term research and development activities for the entire TXT group and the research initiatives undertaken with external research centers and universities.
- **TXT Next.** It includes advanced solutions and system integration services made to order for clients operating in special sectors, and in particular Aerospace & Defence and Banking and Finance. In these sectors, TXT has unique competence in very-high-reliability software, in lifetime management for vital, complex applications, and in the supply chain of specialty manufacturing.

In 2007, TXT continued to expand internationally, opening an office in Holland, a company in the USA with offices in New York, and an assistance and training centre for TXT partners in the USA. Commercial and technical teams were strengthened in all countries in which we have a direct presence.

TXT is currently capable of providing technical assistance throughout all of Europe, EMEA and North America, both directly and through our partner network. In countries where we do not yet have a direct technical presence, we are ready to invest following our clients' growth path and requests.

At the beginning of 2008, we acquired BGM, a UK partner company, with whom we have cooperated for a number of years. This acquisition strengthens us on the UK market, and increases our ability to integrate with SAP. We plan to acquire other small and medium sized companies with complementary specialization, primarily in the north European and US markets. We expect to benefit from the strength of the Euro and from our debt free balance sheet.

Dear Shareholders, strong turbulence on international financial markets will certainly cause a slowdown in the industrial and commercial markets of our clients in the coming reporting periods.

In this challenging economic environment, TXT has a unique business proposition, to customers who need to hold or increase their margins, with TXTPerform, or to diversify into new media or digital advertising, with TXT Polymedia. Our end-to-end offering in these fields has superior performance, creates more value, and has higher ROIs, than our competitors'.

We will therefore continue our strategy of specialization and innovation in the important international markets in which we are highly competitive.

Our shareholders' meeting on April 23, 2008 has expanded the Board of Directors, appointing new Executive Directors and a new Independent Director with recognized industrial and business experience. For these reasons, we are looking at the future with confidence and with important growth objectives.



ALVISE BRAGA ILLA  
CHAIRMAN & CEO

## Group results

**T**XT Group revenues in 2007 amounted to Euro 55.5 million, a decrease of -1.5% on Euro 56.3 million in 2006 due to continuing refocusing on projects and activities with higher margins and future growth potential.

In line with our growth objectives on international markets, revenues from foreign subsidiaries amounted to Euro 11.5 million, a growth of 13.9% on Euro 10.1 million in 2006. In 2007, these revenues accounted for 21% of total group revenues.

Gross Profit remained stable compared to 2006 at Euro 28.2 million, margin improved from 50.0% to 50.9%. This result was due to improvement in operating efficiency and reduction in direct costs, which decreased compared to 2006 by 3.2%.

In 2007, the company implemented a cost reduction plan and an internal reorganization, called the "Competitvity Project", resulting in a smaller and leaner management structure. Direct reports to the CEO were reduced and the majority of contracts for purchase of goods and services, including rent, marketing expenses, operating leases, maintenance and travel expenses, were renegotiated.

EBITDA for the year, before non-recurring items, was Euro 5.7 million, an increase of Euro 1.8 million (+44% on 2006 at Euro 3.9 million). EBITDA margin on revenues therefore increased from 7.0% in 2006 to 10.3% in 2007.

EBITDA after non-recurring income was Euro 6.4 million, an increase of Euro 0.7 million following pension reforms in Italy and consequent changes in valuation of Employee Termination Provisions for Italian employees.

EBIT in 2007 was Euro 2.3 million, compared to a loss of Euro 0.6 million in 2006, an improvement of Euro 2.9 million, thanks to higher EBITDA and lower amortization and depreciation. Amortization and depreciation costs amounted to Euro 4.2 million, compared to Euro 4.5 million in 2006, due to lower depreciation of fixed assets, which more than compensated an increase in amortization of intangible assets.

EBT in 2007 was a positive Euro 1.5 million, compared to a loss of Euro 0.9 million in 2006. Net financial charges amounted to Euro 0.8 million, of which Euro 0.1 million due to notional interest on Employee Termination Provisions.

Net result in 2007 was a loss of Euro 0.4 million, compared to a loss of Euro 2.0 million in 2006. Taxation amounted to Euro 1.8 million, of which Euro 1.0 million were the Italian regional tax (IRAP) and Euro 0.8 million were income tax.

On December 31, 2007, the number of employees was 568, an increase of 26 on 2006 in international operations. On December 31, 2007, the consolidated net financial position amounted to debt of Euro 1.2 million and shareholders' equity amounted to Euro 28.1 million. Medium/long term bank debts of Euro 4.5 million are loans for research at subsidized interest rates by primary Italian banks and by the Central European Bank.

## KEY DATA 2007

### Consolidated Revenues

## Revenue and Income Statement

<i>(in Euro Thousands)</i>	2007	%	2006	%	VAR %
Revenues :	55.460	100,0	56.300	100,0	(1,5)
TXTPerform	21.076	38,0	17.808	31,6	18,4
TXT Polymedia	17.982	32,4	19.872	35,3	(9,5)
TXT Next	16.402	29,6	18.620	33,1	(11,9)

### Consolidated Income Statement

<i>(in Euro Thousands)</i>	2007	%	2006	%	CGE %
<b>REVENUES</b>	55.460	100,0	56.300	100,0	(1,5)
Direct costs	27.253	49,1	28.145	50,0	(3,2)
Gross Profit	28.207	50,9	28.155	50,0	0,2
Research and development	3.588	6,5	3.909	6,9	(8,2)
Marketing & selling	11.040	19,9	12.513	22,2	(11,8)
General & administrative	7.886	14,2	7.784	13,8	1,3
EBITDA before non-recurring income	5.693	10,3	3.949	7,0	44,2
Non-recurring income	744	1,3			
EBITDA after non-recurring income	6.437	11,6	3.949	7,0	63,0
Amortisation and depreciation	4.180	7,5	4.503	8,0	(7,2)
EBIT	2.257	4,1	(554)	(1,0)	n.m.
Financial charges	(773)	(1,4)	(365)	(0,6)	n.m.
PROFIT/(LOSS) BEFORE TAXES (EBT)	1.484	2,7	(919)	(1,6)	n.m.
Income taxes	(1.842)	(3,3)	(1.058)	(1,9)	n.m.
NET INCOME/(LOSS)	(358)	(0,6)	(1.977)	(3,5)	n.m.

## KEY DATA 2007

### Consolidated Balance Sheet

## Balance Sheet

<i>(in Euro Thousands)</i>	2007	
Intangible assets	13.538	12.590
Net tangible assets	1.719	2.073
Other fixed assets	1.863	2.585
<b>FIXED ASSETS</b>	<b>17.120</b>	<b>17.248</b>
Inventories	2.774	3.574
Trade receivables and other current assets	29.618	26.791
Trade payables	(6.930)	(7.248)
Tax payables	(2.244)	(1.863)
Other current liabilities	(6.616)	(6.410)
<b>NET WORKING CAPITAL</b>	<b>16.602</b>	<b>14.844</b>
<b>EMPLOYEE TERMINATION PROVISION</b>	<b>(4.385)</b>	<b>(5.580)</b>
<b>CAPITAL EMPLOYED</b>	<b>29.337</b>	<b>26.512</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>28.110</b>	<b>28.176</b>
<b>NET FINANCIAL DEBT</b>	<b>1.227</b>	<b>(1.665)</b>
<b>FINANCING CAPITAL EMPLOYED</b>	<b>29.337</b>	<b>26.512</b>

## KEY DATA 2007

### Consolidated Cash Flow

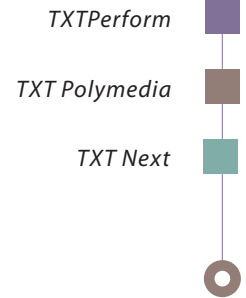
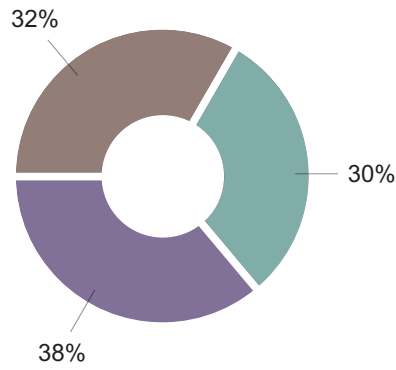
### Cash Flow

<i>(in Euro Thousands)</i>	2007	
Net loss for the year	(358)	(1.990)
Amortisation & depreciation	4.088	4.245
Employee Termination Provision	0	985
Other cash items	(468)	230
<b>CASH FLOW GENERATED FROM OPERATIONS</b>	<b>3.262</b>	<b>3.470</b>
Change in net working capital	(1.436)	127
Employee Termination Provision and pension benefits paid in the year	(456)	(1.110)
Other assets and liabilities	618	(593)
<b>CHANGES IN ASSETS AND LIABILITIES IN THE YEAR</b>	<b>(1.274)</b>	<b>(1.576)</b>
<b>CASH FLOW GENERATED FROM OPERATING ACTIVITIES</b>	<b>1.988</b>	<b>1.894</b>
Increase in intangible assets	(4.572)	(6.037)
Increase in property, plant and equipment	(648)	(696)
Decrease in intangible and tangible assets	541	438
<b>USES OF CASH IN INVESTING ACTIVITIES</b>	<b>(4.679)</b>	<b>(6.295)</b>
Change in financial debt	(417)	3.071
Change in net equity and others	(202)	(579)
<b>SOURCES (USES) OF CASH FROM FINANCING ACTIVITIES</b>	<b>(619)</b>	<b>2.492</b>
<b>INCREASE (DECREASE) IN CASH, BANKS AND SECURITIES</b>	<b>(3.309)</b>	<b>(1.909)</b>
Cash and banks at beginning of year	8.300	10.209
Cash and banks at end of year	4.991	8.300
Change	(3.309)	(1.909)

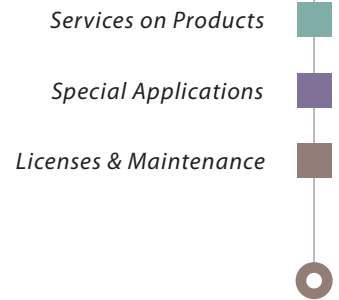
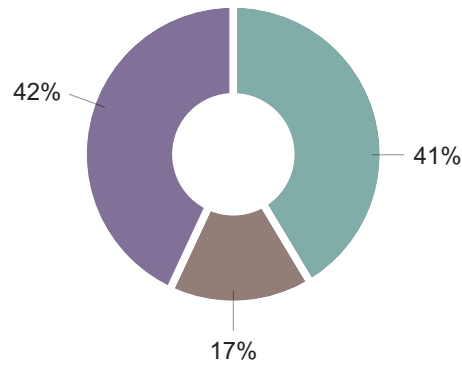
KEY DATA 2007

Revenue by Business Unit

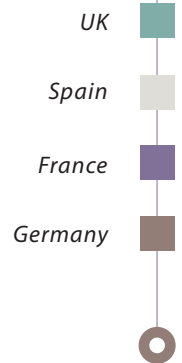
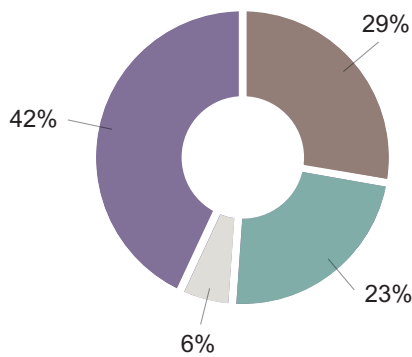
Revenue Analysis



Revenue by Type of Activity



Revenue from International Subsidiaries  
(Growth 2003-2007: +50%)



## TOP MANAGEMENT

### Executive Committee

Alvise Braga Illa	Group Chairman & CEO
Paolo Matarazzo	Group CFO
Marco Edoardo Guida	TXT e-solutions, General Manager
Tullio Pirovano	TXT Polymedia, General Manager
Paolo Enrico Colombo	TXT Next

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### Business Directors

Andrea Cencini	TXTPerform
Elena Antonini	TXT Next, Banking & Finance
Flavio Fusetti	TXT Next, Aerospace & Defence

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### Corporate Management Team

Alessandra Rizzi	HR Director
Pierluigi Corti	IT Director



## BUSINESS DESCRIPTION

### TXTPerform Demand & Supply Chain Management

**T**XT is a market leader in software solutions for Demand & Supply Chain Management and operates internationally with its proprietary TXTPERFORM products. TXTPerform provides superior business performance and value to our customers: for this reason, we like to speak of "Value Chain Intelligence".

In the last quarter of 2007, TXT announced TXTPerform 2008, the first product which combines the functions of Supply Chain Management and Business Intelligence in a single application. Thanks to the exclusive combination of intelligence and technology, TXTPERFORM 2008 enables more effective business decisions to be made based on key data and qualitative information, improving efficiency and effectiveness of entire the Supply Chain. TXTPerform 2008 is also the first product that measures the performance of the supply chain with the use of a metric system fully integrated into the TXTPerform application.

TXTPerform solutions are specialized by industrial sectors. We are uniquely strong in Fashion, Apparel, Luxury, Specialty Retail, CPG and in many Discrete Manufacturing sectors. TXT integrates best practices and in-depth expertise of different markets by experienced TXT consultants working alongside leading international companies. TXTPerform connects easily to SAP and other ERP systems; it provides a standard, Microsoft-based user experience to facilitate end-to-end company use by tens or hundreds of business professionals and managers in product planning, marketing and sales, distribution, production, supply chain, promotion, category management, and by top management.

TXTPerform looks at the entire, end-to-end Value Chain, from product design to store or customer availability. Some of our customers have found that:

- In-store availability increases up to 98%
- Stock of unsold products is reduced by as much as 80%
- Time-to-market of products is shortened significantly
- Planning cycle time is shortened by 50%

#### **Some of our Customers:**

*Amadori, Auchan, Blédina (Danone Group), Cadbury EMEA, Carraro, Caviro, Chelsea Football Club, Chiesi Farmaceutici, Coca-Cola HBC, DaimlerChrysler, Dolce & Gabbana, Elica, Entertainment UK, Fresenius Medical Care, Gate (Johnson Electric), Geox, Gucci Group, Lavazza, Lindt & Sprüngli, Loewe, Louis Vuitton Malletier, Marc Jacobs, Nicolas, Orangina Schweppes, Pirelli Pneumatici, Russell Corporation, ST Microelectronics, Schweppes S.A., Snaidero, Stefanel, Thun, VF Europe Bvba, Wedgwood, Weetabix, Young's Seafood, ...and many more.*

## BUSINESS DESCRIPTION

### TXT Polymedia Digital Media and Channel Integration

**T**XT Polymedia has a unique offering in new media and multichannel content management. This offering includes Polymedia Internet TV, Video on Demand, Content and Media Asset Management, Polymedia Mobile, Advanced Online Advertising, UGC and Communities, as well as many "classic" bread-and-butter applications, such as Teletext and Carousel Controllers.

TXT Polymedia helps companies diversify into multichannel management of online digital content and video, from acquisition from a wide range of sources, to editing and handling, to distribution and measurement. The advanced interactive advertising solutions of Polymedia Advertising can target diverse channels and media, with particularly innovative solutions for the mobile area. TXT Polymedia is the partner of choice for Media, Telecommunications and large companies who need to diversify rapidly to the cutting edge of new media, or experiment new business models effectively.

TXT Polymedia can respond to specific needs of clients based on:

- in-depth know-how of business processes of Media & Telecom clients;
- fast time-to-market;
- strategic partnerships: Microsoft, IBM, Adobe, Verisign, Remedy;
- expanding international presence in Belgium, Spain, Switzerland, UK.

#### Some of our Customers

*Bravobuild, Class Editori, De Agostini, E-class, Eircom, FastWeb, Gruppo Amodei, Guardian Media Group (Manchester Evening News), H3G, HP, Il Sole 24 Ore -Radiocor, La7, Manzoni, Mediaset Group, Health Ministry, Multifields Engineering, PUBLITALIA '80, RAI, RTSI - Radio Televisione della Svizzera Italiana, Radio101, Regione Lombardia, SEAT PG, SherpaTV, SportNetwork, TELECOM ITALIA, Telecinco, Vodafone, Wind...and many more.*

## BUSINESS DESCRIPTION

### TXT NEXT New Enterprise Software Technology

**T**XT NEXT offers to a select roster of the largest European companies a specialized and innovative portfolio of advanced "system integration" services and Information Technology. Typically, these companies are in:

- Aerospace & Defence
- Banking & Finance
- High Tech

who share the need for very complex, very-high-performance, very-high-reliability, highly secure applications that must perform their vital functions flawlessly year after year.

TXT listens to the needs of these clients and creates, based on their requirements, state-of-the-art technological solutions with focus on the business and the enterprise, where technology is central to the success of the business. Strong focus is placed on mission critical systems and highly reliable and secure embedded software.

Lifetime Application Management is scientifically approached and applied: key to the uniqueness of the TXT offering is TXT's experience in very large applications, achieved in over twenty years alongside leading enterprises, and in-depth expertise in mission-critical software design and development methodologies. This competency is further strengthened by strategic partnerships with Microsoft, HP and other technology leaders.

The Banking and Finance offer also draws on TXT Polymedia experience in Enterprise Portals and in front end multichannel solutions, and from TXTPerform experience in Business Intelligence & Performance Management.

For companies in the defence and aerospace sector, TXT is a unique partner in design and development of software for products, systems and aviation components. TXT Next has created innovative plant management systems for avionic production, drawing on the extraordinary expertise of the TXTPerform Division.

#### Some of our customers

*AgustaWestland, Alenia Aermacchi, Alenia Aeronautica, Banca Mediolanum, Banca Popolare di Milano, Banca Popolare di Verona e Novara, Banca UCB (BNP Paribas), Banche Popolari Unite, Cedacri, Gruppo RAS, Intesa Sanpaolo, Linea (Gruppo Banche Popolari), Macquarie Bank, Nextra SGR, SIA, Seceti, Sigla Finanziamenti, ST Microelectronics, Magneti Marelli, We@bank ...and many more.*

## CORPORATE GOVERNANCE

### Board of Directors\*

Alvise Braga Illa	Chairman and Chief Executive Officer
Marco Edoardo Guida	Executive Director
Paolo Enrico Colombo	Executive Director
Paolo Matarazzo	Executive Director
Tullio Pirovano	Executive Director
Adriano De Maio	Independent Director
Mario Miscali	Independent Director
Franco Cattaneo	Independent Director

### Board of Statutory Auditors\*

Raffaele Valletta	Chairman
Fabio Maria Palmieri	Statutory Auditor
Luigi Carlo Filippini	Statutory Auditor
Angelo Faccioli	Alternate Auditor
Pietro Antonio Grignani	Alternate Auditor

### Independent Auditors

Mazars & Guérard S.p.A.

### Investor Relations

Paolo Matarazzo	infofinance@txtgroup.com
IR TOP	ir.txt@irtop.com

### Communications Manager

Mariateresa Rubino	mariateresa.rubino@txtgroup.com
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### Specialist

Intermonte SIM

\* Appointed by the Shareholders' Meeting of 23/04/2008

## SHAREHOLDERS RELATIONS

### Investor Relations

TXT in 2007 has strengthened its relationship with shareholders and investors with timely, transparent and continuous financial communication approach by a renewed Investor Relations Team. The Team has been enlarged by combining the specialists of IR TOP with the TXT Internal Team. The annual IR programme includes meetings with analysts and investors, updating of significant events related to the evolution of the business, and participation at the STAR events organized by Borsa Italiana in Milan and in the major financial markets.

Top Management has adopted new disclosure guidelines and periodically updates all shareholders on financial results, on developments of the business and on new market opportunities, strategies and projects.

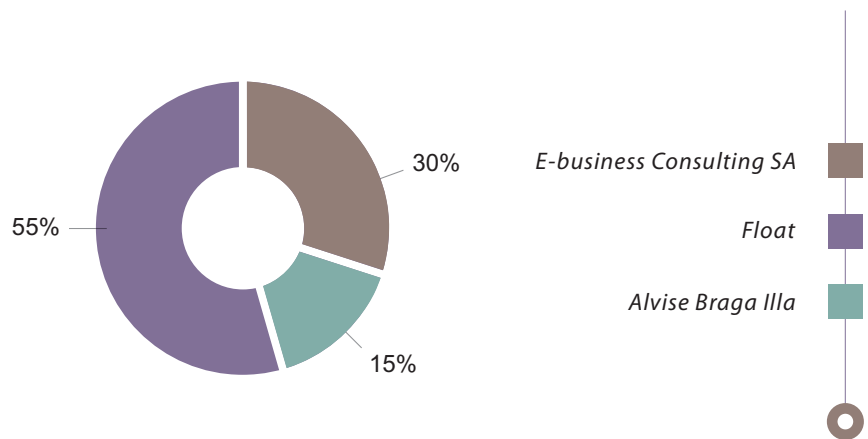
Interested persons may register on the mailing list at [ir.txt@irtop.com](mailto:ir.txt@irtop.com) and receive all company financial communications to the market as well as request further information. The company ensures that all the information disclosed to the financial community is immediately made available in the Investor Relations section of its Internet site ([www.txtgroup.com](http://www.txtgroup.com))

### Shareholders

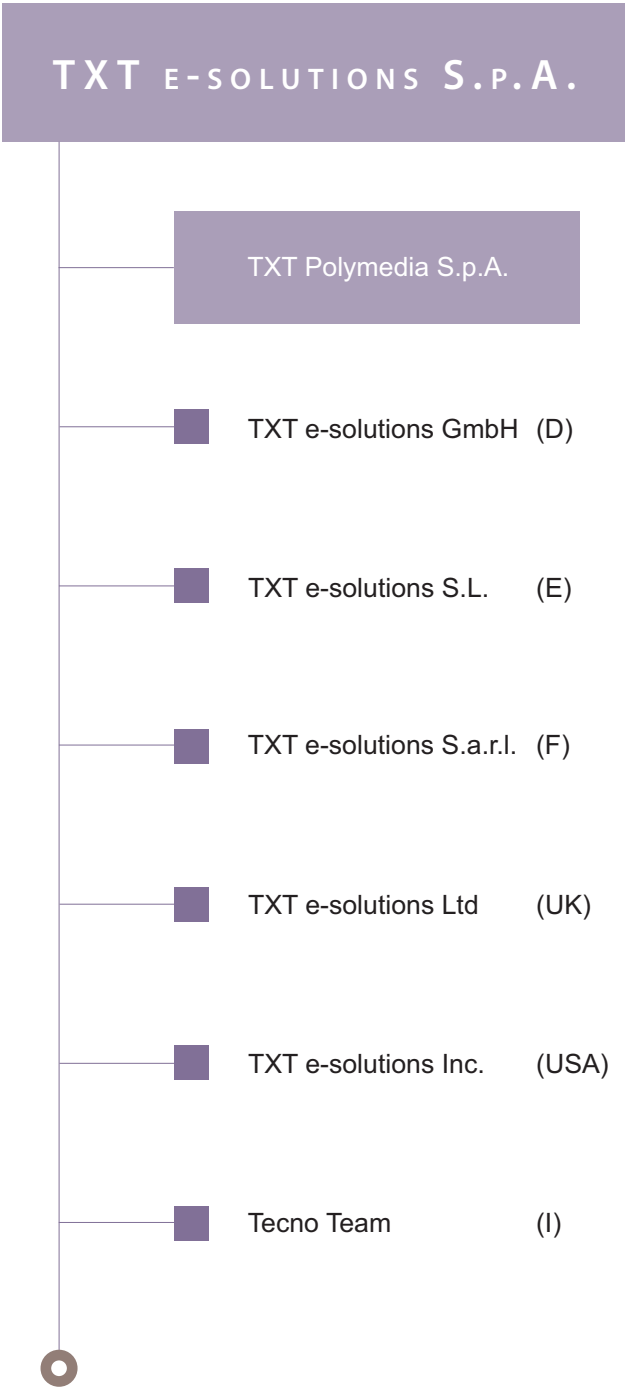
The nominal share capital amounts to Euro 1,313,769.50 comprised of 2,627,539 ordinary shares of TXT (TXT.MI). Stock market capitalization on December 31, 2007 was Euro 33.2 million.

On June 13, 2008, the main shareholders of the company were:

### Major Shareholders

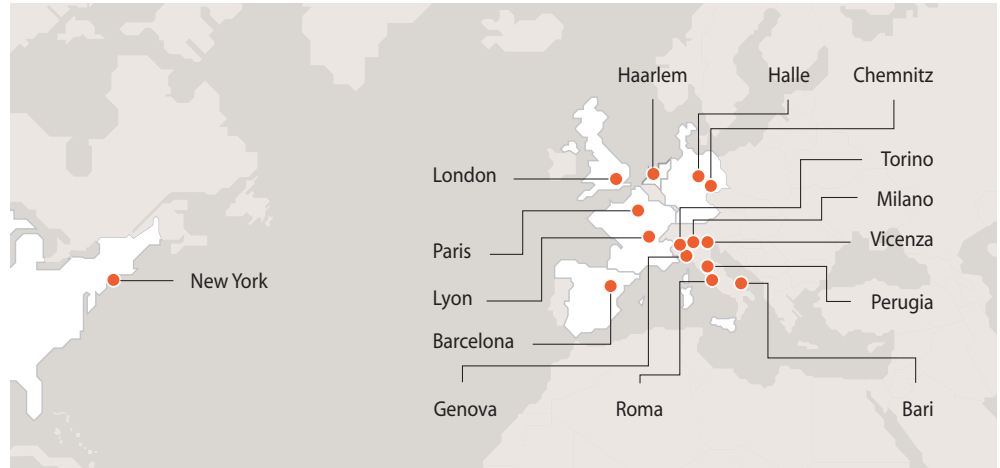


CORPORATE  
STRUCTURE



*All companies 100% owned by TXT e-solutions S.p.A.*

**Our offices**



**ITALY (Headquarter)**  
Tel. +39 02 25771.1  
[www.txtgroup.com](http://www.txtgroup.com)  
e-mail: [info@txtgroup.com](mailto:info@txtgroup.com)

**FRANCE**  
Tel. +33 1 55 80 79 40  
e-mail : [info-fr@txtgroup.com](mailto:info-fr@txtgroup.com)


**UK**  
Tel. +44 208 735 6527  
e-mail : [info-uk@txtgroup.com](mailto:info-uk@txtgroup.com)

**NETHERLANDS**  
Tel. +31 23 551 75 31  
e-mail : [info-ho@txtgroup.com](mailto:info-ho@txtgroup.com)


**GERMANY**  
Tel. +49 345 5 55 84 0  
e-mail : [info-de@txtgroup.com](mailto:info-de@txtgroup.com)

**SPAIN**  
Tel. +34 93 363 40 40  
e-mail : [info-es@txtgroup.com](mailto:info-es@txtgroup.com)


**USA**  
Tel. +1 301 280-5956  
e-mail : [info-usa@txtgroup.com](mailto:info-usa@txtgroup.com)



Graphic Design:  
Grafica LCH, Milano  
[lorenzo\\_crespi@fastwebnet.it](mailto:lorenzo_crespi@fastwebnet.it)



Photographs:  
Enza Tamborra  
Grafica LCH, Milano



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