QUARTERLY REPORT FOR THE THREE MONTHS ENDED 30 JUNE 2006

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

For the three months ended 30 June 2006

(€000)	Note	2006		2005	
		Q2	H1	Q2	H1
Revenues	1	20,836	28,402	5,699	11,128
Other income		8	13	21	39
Total		**20,844**	**28,415**	**5,720**	**11,167**
Movement in work in progress, semi-finished and finished goods		-	2	(9)	(5)
Raw materials	2	(377)	(595)	(110)	(447)
External services	3	(15,890)	(21,653)	(3,108)	(5,443)
Rentals and leases	4	(372)	(718)	(371)	(734)
Staff costs	5	(3,075)	(6,064)	(2,526)	(4,924)
Amortisation and depreciation	6	(229)	(421)	(238)	(467)
Impairment charges/reversal of impairment charges on non-current assets		-	(1)	-	-
Other costs	7	(348)	(601)	(195)	(392)
Finance income	8	212	425	253	450
Finance costs	8	(742)	(1,015)	(87)	(100)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**23**	**(2,226)**	**(671)**	**(895)**
Taxation	9	(637)	(1,045)	(57)	(287)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**(614)**	**(3,271)**	**(728)**	**(1,182)**
Net profit/(loss) from discontinued operations		-	-	-	-
NET PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**(614)**	**(3,271)**	**(728)**	**(1,182)**
Net profit/(loss) attributable to minority interests		-	-	-	-
NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY		**(614)**	**(3,271)**	**(728)**	**(1,182)**
Earnings per share	10	(0.16)	(0.84)	(0.19)	(0.30)
Diluted earnings per share	10	(0.16)	(0.84)	(0.19)	(0.30)

ANALYSIS OF CONSOLIDATED NET FUNDS AT 30 JUNE 2006

(€000)

	30 June 2006	31 Mar 2006	31 Dec 2005
Current financial assets	17,817	23,855	19,761
Cash and cash equivalents	5,775	5,060	11,395
Current financial liabilities	(28)	(28)	(33)
Net cash and cash equivalents (A)	**23,564**	**28,887**	**31,123**
Medium/long-term borrowings	(193)	(193)	(193)
Medium/long-term debt (B)	**(193)**	**(193)**	**(193)**
Net funds (A)+(B)	**23,371**	**28,694**	**30,930**

NOTES TO THE
CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The Acotel Group's Quarterly Report for the three months ended 30 June 2006 has been prepared under international financial reporting standards (IFRS), as issued by the International Accounting Standards Board (IASB) and in compliance with the related interpretations (IFRIC).
The Report also takes account of the guidelines established in Annex 3D to the Regulations for Issuers introduced by CONSOB Resolution no. 11971 of 14 May 1999 and subsequent amendments and additions.
Comparative amounts for the first six months of 2005 have been restated and presented in accordance with IFRS. Further details of the effects of application of these standards on the amounts for the three months ended 30 June 2005 are provided in the Annex to this Quarterly Report.

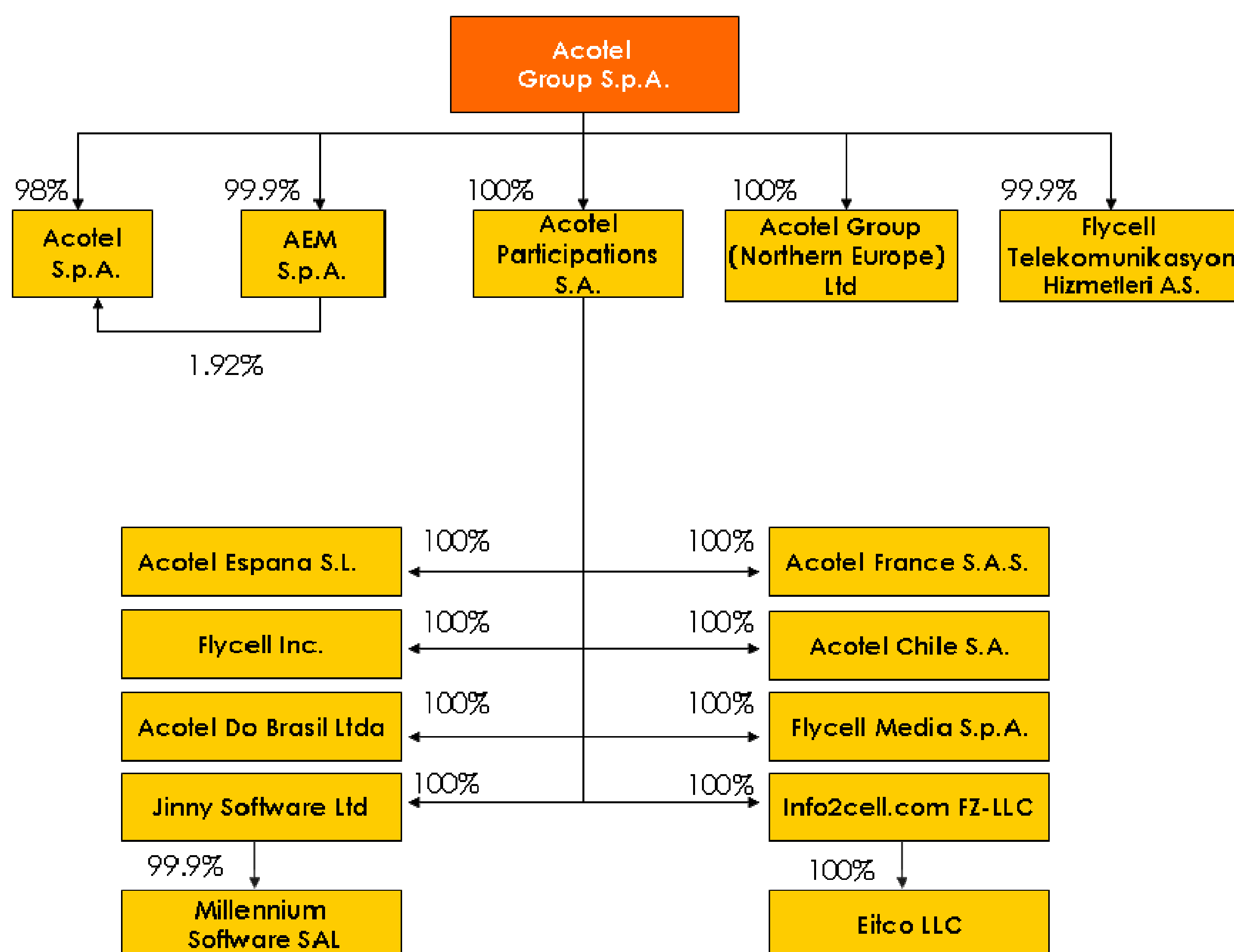
The accounting standards applied are consistent with those adopted for preparation of the Acotel Group's consolidated financial statements for the year ended 31 December 2005.

The consolidated financial statements for the three months ended 30 June 2006 have been prepared on the basis of the underlying accounting records at that date, as adjusted in accordance with the matching principle.

In preparing this Report, it was necessary to make estimates and assumptions which, based primarily on internal records, essentially have an effect on revenues and costs that have yet to be confirmed by customers and suppliers. In particular, the revenue generated by the subsidiary, *Flycell Inc.*, during the first six months of 2006, and certain related cost items, include provisional data and estimates that have not yet been confirmed by the integrator, *mBlox Inc.*, and are therefore more approximate than the data used in preparing the half-year and annual financial statements.

The tax charge is recognised on the basis of the best estimate of the expected average rate for the entire year.

The following table shows the structure of the Acotel Group at 30 June 2006:



The following table provides summary information on consolidated companies held, directly or indirectly, by *Acotel Group S.p.A.,* the Parent Company.

Company	Date of acquisition	Group's interest (%)	Registered office	Share capital	
Acotel S.p.A.	28 April 2000	99.9% (4)	Rome	EURO	13,000,000
AEM Advanced Electronic Microsystems S.p.A.	28 April 2000	99.9%	Rome	EURO	858,000
Acotel Participations S.A..	28 April 2000	100%	Luxembourg	EURO	1,200,000
Acotel Chile S.A.	28 April 2000	100% (5)	Santiago, Chile	USD	17,310
Acotel Espana S.L.	28 April 2000	100% (5)	Madrid	EURO	3,006
Acotel Do Brasil LTDA	8 August 2000 (1)	100% (5)	Rio de Janeiro	BRL	1,868,250
Acotel France S.A.S.	22 October 2002 (1)	100% (5)	Paris	EURO	56,000
Jinny Software Ltd.	9 April 2001	100% (5)	Dublin	EURO	2,972
Millennium Software SAL	9 April 2001	99.9% (6)	Beirut	LPD	30,000,000
Info2cell.com FZ-LLC	29 January 2003 (3)	100% (5)	Dubai	Dh	18,350,000

Emirates for Information Technology Co.	29 January 2003	100% (7)	Amman	JD	710,000
Flycell Media S.p.A.	10 July 2002 (2)	100%	Rome	EURO	400,000
Flycell Inc.	28 June 2003 (1)	100% (5)	Wilmington	USD	100,000
Acotel Group (Northern Europe) Ltd	27 May 2004 (1)	100%	Dublin	EURO	101,000
Flycell Telekomunikasyon Hizmetleri A.S.	2 July 2005 (1)	99.9%	Istanbul	TRY	50,000

(2) The date of the company's entry into the Group coincides with its incorporation.
(3) Prior to such date the Group held 50% of the company's share capital, posted to investments in associates.
(4) Prior to such date the Group held 33% of the company's share capital, posted to investments in associates.
(5) AEM owns 1.92% of the share capital.
(6) Controlled via Acotel Participations S.A.
(7) Controlled via Jinny Software Ltd.
(8) Controlled via Info2cell.com LLC-FZ.

Net funds at 30 June 2006 are compared with the corresponding amounts at 31 March 2006 and at 31 December 2005.

CONSOLIDATION PRINCIPLES

The consolidated financial statements include the financial statements of *Acotel Group S.p.A.* and those of its subsidiaries. Subsidiaries are defined as entities over which the Group has the power to govern the financial and operating policies.

The net profit or loss of subsidiaries acquired or sold during the year is included in the consolidated income statement from the effective acquisition date until the effective disposal date.

Profits and losses and revenues and expenses arising from intercompany transactions are eliminated.

The income statements of overseas subsidiaries based in countries outside the euro area are translated into euros using average exchange rates for the period, as published by the Italian Exchange Office.

OTHER INFORMATION

This Quarterly Report is unaudited.

NOTES TO THE INCOME STATEMENT

Note 1 - Revenue

Revenue by business segment is as follows:

(€000)	2006		2005	
	Q2	H1	Q2	H1
SERVICES	19,205	26,000	4,824	9,043
DESIGN OF ICT EQUIPMENT	1,327	1,855	605	1,565
SECURITY SYSTEMS DESIGN	304	547	270	520
	20,836	**28,402**	**5,699**	**11,128**

SERVICES

The Services business includes the activities carried out for telephone and commercial companies, as well as those supplied to end customers (B2C), and has the primary purpose of supplying value added services and content to mobile phone users.

A breakdown of service revenues is given in the following table:

(€000)	Q2			H1		
	2006	2005	Increase / (Decrease)	2006	2005	Increase / (Decrease)
B2C services	13,012	208	12,804	15,070	302	14,768
Network Operator Services	4,734	3,474	1,260	8,825	7,318	1,507
Corporate services	814	885	(71)	1,012	995	17
Media services	645	257	388	1,093	428	665
Total	**19,205**	**4,824**	**14,381**	**26,000**	**9,043**	**16,957**

In the second quarter of 2006 B2C services registered strong growth, thereby becoming the most important service provided by the Group. Such revenue includes an amount of 12,933 thousand euros generated by the US subsidiary *Flycell Inc.*, and the remainder derives from the subsidiaries, *Flycell Telekomünicasyon Hizmetleri A.Ş., Info2cell.com FZ-LLC* and *Acotel S.p.A.*

As mentioned in the basis of presentation, determination of the revenue generated by the subsidiary, *Flycell Inc.*, entailed making estimates based on provisional data deduced from internal records, which have not yet been confirmed by the integrator, *mBlox Inc.* Any significant differences with regard to final data will be reported on publication of interim data.

Revenues from value added services (VAS) to network operators, amounting to 4,734 thousand euros in the second quarter of 2006, are up 1,260 thousand euros (36%) on the same period in the previous year.
They primarily include revenues from services rendered by the subsidiary, *Acotel S.p.A,* to *Telecom Italia Mobile,* which amount to 2,391 thousand euros in the second quarter, revenues from services rendered by the Brazilian subsidiary, *Acotel do Brasil*, to Brazilian operators, *TIM Celular*, *TIM Sul, Maxitel* and *TIM Nordeste Telecomunicaçoes,* amounting to 1,603 thousand euros, and revenues generated by activities carried out by *Info2cell* with the main mobile telephony operators in the Middle East, totalling 716 thousand euros. The increase compared with the same period of the previous year is principally due to the performances of the overseas subsidiaries, *Acotel do Brasil* and *Info2cell*.

Revenues from corporate services amount to 814 thousand euros and regard revenues earned by *Info2cell* under an agreement signed with *Pepsi-Cola* in April (601 thousand euros), the Italian operations of *Acotel S.p.A.*, which primarily serves banks (118 thousand euros), and *AEM S.p.A.* on relations with *ACEA S.p.A*. (95 thousand euros).

Revenues from services provided to media companies, amounting to 645 thousand euros, rose sharply compared with the second quarter of 2005 among all the Group subsidiaries that provide this type of service. Such revenues were generated in Italy (307 thousand euros) by *Acotel S.p.A.* via services connected to certain programmes run by the television broadcasters *MTV, Mediaset, RAI* and *LA7*, in the Middle East (257 thousand euros) by the subsidiary, *Info2cell,* and in Brazil (81 thousand euros) by the subsidiary, *Acotel do Brasil*, with the broadcaster, *Radio Globo*.

DESIGN OF ICT EQUIPMENT

Revenues from ICT equipment in the second quarter of 2006 amount to 1,327 thousand euros, compared with 605 thousand euros in the same period of 2005. Revenues in this line of business are generated by *Jinny Software* and above all on supply and maintenance contracts in place with mobile operators in the Middle East, Latin America, Africa and Europe.

The increase with respect to the same period of the previous year is due to development of new VAS platforms and strengthening of the sales structure used for direct sales, through recruitment of sales staff, and channels, via the drawing up of agreements with channel partners who include products developed by *Jinny Software* in their product offer.

SECURITY SYSTEMS DESIGN

Revenues from the design of electronic security systems amount to 304 thousand euros, slightly up (13%) on the same period of 2005. These revenues regard the installation, supply, maintenance and servicing of remote surveillance equipment installed at Italian police headquarters and at certain provincial branches of the Bank of Italy by the subsidiary, *AEM S.p.A.*

A breakdown of the Group's revenue by geographical segment is as follows:

(€000)	2006				2005			
	Q2	%	H1	%	Q2	%	H1	%
NORTH AMERICA	12,988	62.3%	14,934	52.5%	138	2.4%	138	1.2%
ITALY	3,236	15.5%	6,523	23.0%	2,826	49.6%	5,838	52.5%
MIDDLE EAST	2,191	10.5%	3,326	11.7%	1,738	30.5%	2,470	22.2%
LATIN AMERICA	1,767	8.5%	2,691	9.5%	617	10.8%	1,210	10.9%
OTHER EUROPEAN COU	414	2.0%	587	2.1%	308	5.4%	854	7.7%
AFRICA	240	1.2%	341	1.2%	-	0.0%	225	2.0%
ASIA	-	0.0%	-	0.0%	72	1.3%	393	3.5%
	20,836	**100%**	**28,402**	**100%**	**5,699**	**100%**	**11,128**	**100%**

The breakdown of revenue in the second quarter of 2006 by geographical segment highlights how important the United States market has become for the Acotel Group. Due to the revenues earned from services rendered during the period by the subsidiary, *Flycell Inc.*, the proportion of the Group's total revenue generated in North America has risen from 2.4% in the second quarter of 2005 to 62.3% in the second quarter of 2006. As a result of such development, revenues generated in Italy, although up by 14.6% in absolute terms, fell from 49.6% in the second quarter of 2005 to 15.5% in the second quarter of 2006.

Note 2 – Raw materials

The cost of raw materials during the period, amounting to 377 thousand euros, refers principally to the purchase of materials for the construction of telecommunications equipment by *Jinny Software* (344 thousand euros).

Note 3 – External services

The cost of external services during the second quarter of 2006 amounts to 15,890 thousand euros, compared with 3,108 thousand euros in the same period of 2005. The strong growth is entirely due to the operating methods chosen by *Flycell Inc.* to develop its business in the relevant market. This has entailed substantial costs (6,245 thousand euros) charged by mobile operators and the integrator for the transport and collection services they provide, as well as considerable promotional expenses (6,314 thousand euros) to raise awareness of the company's services in the marketplace and increase its customer base. It should be borne in mind that *Flycell Inc.* primarily provides its services via monthly subscriptions, meaning that, except in the event of a rapid cancellation, the acquired customer continues to generate revenue for several months after the acquisition costs have been incurred.

The next most significant items regard the cost of acquiring content from external content providers, totalling 1,213 thousand euros, and marketing, administrative, legal and technical consulting fees incurred by Group companies amounting to 283 thousand euros. Such fees regard business

consultancy, technical and technological updates of the systems used in managing and developing services and equipment, and the outsourcing of certain administrative and legal processes.
Service costs also include travel expenses of 216 thousand euros, the cost of purchasing SMS packages from mobile operators (192 thousand euros), remuneration paid to directors and statutory auditors (137 thousand euros), telephone expenses (117 thousand euros), and the cost of connecting to terrestrial and satellite transmission networks for the provision of value added services (75 thousand euros).
The balance reflects overheads (utilities, management and maintenance of the Group's operating properties, insurance, travel expenses, etc.) incurred by the Group in its day-to-day operations.

Note 4 – Rentals and leases

The cost of rentals and leases, amounting to 372 thousand euros, mainly includes rentals of offices occupied by Group companies.

Note 5 - Staff costs

Staff costs include:

(€000)	2006		2005	
	Q1	H1	Q1	H1
Salaries and wages	2,292	4,497	1,887	3,610
Social security contributions	438	875	381	789
Staff termination benefits	57	124	107	209
Finance costs	(9)	(19)	(9)	(17)
Other costs	297	587	160	333
Total	**3,075**	**6,064**	**2,526**	**4,924**

The following table shows the average number of staff by category at 30 June 2006 and during the second quarters and first halves of 2006 and 2005:

	At 30 June 2006	Average Q2 2006	Average Q2 2005	Average H1 2006	Average H1 2005
Managers	19	19	15	18	14
Supervisors	30	30	30	30	29
White- and blue-collar staff	233	226	189	221	184
Total	**282**	**275**	**234**	**269**	**227**

The following table shows the geographical distribution of the Group's staff:

	At 30 June 2006	At 30 June 2006
Italy	97	95
Ireland	21	22
Lebanon	49	33
France	-	2
Brazil	17	13
United Arab Emirates	16	19
Jordan	52	42
USA	30	10
Total	**282**	**236**

The increase in staff costs in the second quarter of 2006 compared with the same period of 2005 is connected with the expansion of the Group's overseas subsidiaries.

Note 6 - Amortisation and depreciation

Details of the amortisation and depreciation of assets is given below:

	2006		**2005**	
(€000)	**Q2**	**H1**	**Q2**	**H1**
Amortisation of non-current intangible assets	69	135	69	140
Depreciation of property, plant and equipment	160	286	169	327
Total	**229**	**421**	**238**	**467**

Amortisation of non-current intangible assets mainly refers to amortisation of the software and licences utilised by various Group companies.

Depreciation of property, plant and equipment mainly refers to depreciation of the telecommunications equipment and infrastructures used by Group companies.

Note 7 - Other costs

Other costs amount to 348 thousand euros for the second quarter of 2006, and include 242 thousand euros for indirect taxes due from *Acotel do Brasil* in compliance with local legislation.
The balance includes other general expenses and charges incurred by Group companies in connection with their ordinary activities.

Note 8 - Finance income and costs

Net finance costs of 530 thousand euros break down as follows:

(€000)	2006		2005	
	Q2	H1	Q2	H1
Interest income from investments	192	391	207	348
Interest income on bank deposits	16	27	25	37
Foreign exchange gains	-	-	-	17
Other interest income	4	7	21	48
Total financial income	**212**	**425**	**253**	**450**
Interest expense and bank charges	(32)	(76)	(33)	(68)
Foreign exchange losses	(694)	(913)	(45)	(15)
Other interest expense	(10)	(20)	(9)	(17)
Impairment charges for current financial assets	(6)	(6)	-	-
Total finance costs	**(742)**	**(1,015)**	**(87)**	**(100)**
Net finance income/(costs)	**(530)**	**(590)**	**166**	**350**

Interest income from investments includes gains on investment of the Group's liquidity in short-term instruments.

Net foreign exchange losses reflect the substantial and penalising negative effect of movements in closing exchange rates on the value of borrowings issued in dollars.

Note 9 - Taxation

Taxation for the period, amounting to 637 thousand euros, reflects the estimated income taxes due from Group companies and the reversal of deferred tax assets from previous years, net of deferred tax assets recognised in the second quarter of 2006.

Note 10 - Earnings per share

The calculation of basic and diluted earnings per share is based on the following data:

(€000)	2006		2005	
	Q2	H1	Q2	H1
Net profit/(loss) (€000)	**(614)**	**(3,271)**	**(728)**	**(1,182)**
Number of shares (000)				
Shares in circulation at the start of the period *	3,916	3,916	3,916	3,961
Weighted average of treasury shares acquired/sold in the period	-	-	-	53
Weighted average of ordinary shares in circulation	**3,916**	**3,916**	**3,916**	**3,908**
Basic and diluted earnings per share **	**(0.16)**	**(0.84)**	**(0.19)**	**(0.30)**

* : net of treasury shares held at the same date.
**: basic earnings per share for the second quarters and the first halves of 2006 and 2005 coincide with the diluted earnings per share as the conditions provided for by IAS 33 do not exist.

NET FUNDS

Net funds at 30 June 2006 amount to 23,371 thousand euros, down on 31 March 2006 and 31 December 2005. This is primarily due to the significant cost incurred by the Group in order to launch its B2C business in the USA.

DIRECTORS' FINANCIAL AND OPERATING REVIEW

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(€000)	Q2				H1			
	2006	2005	Increase/(Decrease)		2006	2005	Increase/(Decrease)	
Revenues	20,836	5,699	15,137	266%	28,402	11,128	17,274	155%
Other income	8	21	(13)	-62%	13	39	(26)	-67%
Total	**20,844**	**5,720**	**15,124**	**264%**	**28,415**	**11,167**	**17,248**	**154%**
Gross operating profit	**782**	**(599)**	**1,381**	**231%**	**(1,214)**	**(778)**	**(436)**	**-56%**
Operating profit/(loss)	**553**	**(837)**	**1,390**	**166%**	**(1,636)**	**(1,245)**	**(391)**	**-31%**
Net finance income/(costs)	(530)	166	(696)	-419%	(590)	350	(940)	-269%
PROFIT/(LOSS) BEFORE TAX	**23**	**(671)**	**694**	**103%**	**(2,226)**	**(895)**	**(1,331)**	**-149%**
Taxation for the period	(637)	(57)	(580)	1018%	(1,045)	(287)	(758)	264%
NET PROFIT/(LOSS) ATTRIBUTABLE TO PARENT COMPANY	**(614)**	**(728)**	**114**	**16%**	**(3,271)**	**(1,182)**	**(2,089)**	**-177%**
Earnings per share	(0.16)	(0.19)	0.03	16%	(0.84)	(0.30)	(0.53)	-177%
Diluted earnings per share	(0.16)	(0.19)	0.03	16%	(0.84)	(0.30)	(0.53)	-176%

Compared with the same period of the previous year, the Acotel Group's performance in the second quarter of 2006 was marked by strong revenue growth (266%) and a substantial improvement in all pre-tax margins.

Revenue growth derives almost entirely from overseas markets and is primarily due to the launch of commercial activities by the subsidiary, *Flycell Inc.* After concluding the previous year's market survey phase and the drawing up of interconnection agreements, in February 2006 the company started generating increasing traffic volumes, making provision of B2C services to the US market the Group's main source of the revenue.
As already described in this and previous reports, in the financial and operating review, business expansion is carried out via a related advertising campaign conducted almost exclusively via affiliates, namely the portals that redirect visitors to other websites (such as www.flycell.com). These portals are remunerated on the basis of the activities carried out by such visitors on the final websites. These operating methods were chosen as the web has proved to be far more effective and efficient in terms of customer acquisition cost than other more traditional media such as TV, radio and the press.

The increase in revenue is also significantly due to the subidiaries, *Acotel do Brasil* and *Info2cell*, which, as a result of the services provided to Brazilian and Middle Eastern mobile operators, registered revenue growth of 173% and 27%, respectively, compared with the same period of 2005.

In Turkey the subsidiary, *Flycell Telekomunikasion Hizmetleri A.S.*, completed interconnection with the mobile operator, *Telsim* (now acquired by *Vodafone*), and signed an interconnection contract with *Turkcell*, Turkey's leading mobile operator.

With regard to product sales, taking into account that this activity does not lend itself to quarterly assessment, it should be pointed out that the subsidiary, *Jinny Software*, recovered from its first quarter performance, generating second-quarter revenues of 1.3 million euros, almost double the earnings achieved in the same period of 2005.
Commercially, the company's main achievement regards orders booked, which totalled 3 million euros in the second quarter of 2006, their highest ever level. In addition, contracts were signed with three new clients, and the first sale took place of a *Real Time Charging Gateway / Rating Engine* combo, two of the latest products developed by the company. Two *Ringback Tone Servers* – other recent additions to *Jinny Software*'s product portfolio – were also sold.

The Group reports a gross operating profit of 782 thousand euros, which is significantly higher than the loss of 599 thousand euros reported for the second quarter of 2005. This improvement derives from the better performances of *Acotel do Brasil* and *Info2cell* and the rationalisation process underway within the Group, which has entailed the freezing of certain overseas structures whose capacity to generate good results was deemed too remote.

Net of amortisation and depreciation, amounting to 229 thousand euros, the Group reports a gross operating profit of 553 thousand compared with the loss of 837 thousand euros reported for the same period of 2005.

After net finance costs of 530 thousand euros, arising from conversion of loans originally issued in dollars into euros, and estimated taxation for the period, amounting to 637 thousand euros, the net loss for the second quarter 2006 amounts to 614 thousand euros, compared with the net loss of 728 thousand euros for the same period of the previous year.

A comparison of the net loss (614 thousand euros) for the second quarter and the net loss for the first quarter (2,657 thousand euros) of 2006 confirms what has already been pointed out in this and other reports regarding the commercial effectiveness of advertising promotion in support of services directly supplied to end customers, on which the B2C business model is based. This forecast that an acquired customer continues to generate revenue for several months after the acquisition cost is incurred.

OUTLOOK

The Group's development strategy, already described in the Directors' Report on Operations for the year ended 31 December 2005, will remain unchanged in the immediate future. Expansion goals, which will continue to be given major priority, will be pursued in countries where the Group has an established presence and also by penetrating new markets where, using all available synergies, efforts will be made to reproduce the business model that has been developed in the United States.

ANNEX - TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Following the entry into force of Regulation (EC) 1606/2002, passed by the European Parliament and the Council of the European Union in July 2002, the companies with securities admitted to trading in a regulated market of the Member States of the European Union are required to prepare their consolidated financial statements for 2005 under IFRS, as issued by the International Accounting Standard Board (IASB) and endorsed by the EU.

For the purposes of comparison, this Annex provides the reconciliation between the net loss for the first six months of 2005 determined under Italian GAAP and under IFRS, as required by IFRS 1 – First-time adoption of International Financial Reporting Standards, in addition to the related notes.

The adjustments shown in the reconciliations have been prepared in accordance with the IFRS in force at the date of preparation.

EFFECTS OF APPLICATION OF IFRS ON THE INCOME STATEMENT FOR THE FIRST SIX MONTHS OF 2005

The application of IFRS entailed a restatement of the financial statements prepared under Italian GAAP, the effects of which may be summarised as follows:

(€000)	Net loss H1 2005
TOTAL AMOUNT UNDER ITALIAN GAAP	(1,609)
Less: minority interests	-
SHARE ATTRIBUTABLE TO THE PARENT COMPANY UNDER ITALIAN GAAP	**(1,609)**
Taxation for the period	(380)
ADJUSTMENTS:	
1. reversals of gains/losses on trading in treasury shares	(86)
2. reversal of amortisation of goodwill arising from consolidation	876
3. reversal of start-up and expansion costs	8
4. reversal of research and development costs	36
5. reversal of trademark costs	(47)
6. adjustment to staff termination benefits	15
Tax effects on reconciled items	5
Minority interests in reconciled items	-
SHARE ATTRIBUTABLE TO THE PARENT COMPANY	**(1,182)**

In order to reconcile the results of the two periods shown above determined under Italian GAAP with the results calculated under IFRS, the reconciliation shows taxation for the first six months of 2005 (380 thousand euros).

The individual adjustments are shown pre-tax in the table and before minority interests, while the relevant tax effects and effects on the minority interests are shown cumulatively in two separate adjustment items.

The main IFRS adjustments are discussed below:

1. reversal of gains on trading in treasury shares: the different accounting treatment under IFRS has resulted in an increase of 86 thousand euros in the net loss for the first six months of 2005 following the reversal of gains realised on the sale of treasury shares, which under IFRS must be recognised directly in shareholders' equity with no effect on the income statement;

2. reversal of goodwill arising from consolidation: under IFRS 3, goodwill arising from consolidation is no longer amortised on a regular basis but is subject to an impairment test, which is conducted at least once a year, to determine any permanent loss of value.
   The application of IFRS 3 has determined a reduction of 876 thousand euros in the net loss for the first six months of 2005, entirely as a result of the elimination of goodwill;

3. reversal of start-up and expansion costs: he different accounting treatment of start-up and expansion costs under IFRS has resulted in a reduction of 8 thousand euros in the net loss for the first six months of 2005, due to reversal of the amortisation accounted for under Italian GAAP;

4. reversal of amortisation of research and development costs: the different accounting treatment of research and development costs under IFRS has resulted in a reduction of 36 thousand euros in the net loss for the first six months of 2005, due to reversal of the amortisation accounted for under Italian GAAP;

5. reversal of trademark costs: under IFRS, the cost of registering internally developed trademarks is expensed as incurred, while under Italian GAAP they may be capitalised and recognised in assets. This different accounting treatment has resulted in an increase of 47 thousand euros in the pre-tax loss for the first quarter of 2005, after amortisation of 6 thousand euros and before the related positive tax effect;

6. Adjustment to staff termination benefits: under Italian GAAP, staff termination benefits give rise to a liability equivalent to the nominal debt toward employees, as accrued in accordance with the provisions of the Italian Civil Code in force at the balance sheet date. Under IFRS, these benefits qualify as a defined-benefit plan and as such must undergo actuarial valuation (mortality, forecast salary trends, etc.) to reflect the present value of the benefit payable upon severance that has accrued to staff at the balance sheet date. This different accounting treatment has resulted in a reduction of 15 thousand euros in the pre-tax loss for the first six months of 2005, before the related negative tax effect.

CONSOLIDATED INCOME STATEMENT FOR THE FIRST SIX MONTHS OF 2005 UNDER IFRS

In addition to the reconciliation of the net loss for the first quarter of 2005, together with notes to the adjustments to the amounts determined under Italian GAAP, the income statement for the same period of 2005 is presented below, showing for each item:

- amounts determined under Italian GAAP but presented under IFRS;
- reclassifications deriving from adjustments made under IFRS;
- changes deriving from adjustments made under IFRS;
- amounts adjusted under IFRS.

CONSOLIDATED INCOME STATEMENT FOR THE FIRST SIX MONTHS OF 2005

(€000)	Italian GAAP	Effects of IFRS adoption			IFRS
			Reclassificati	Adjustme	
Revenues	10,953	a); f)	181	-	11,134
Other income	204	a)	(165)	-	39
Total	**11,157**		**16**	**-**	**11,173**
Movement in work in progress, semi-finished and finished goods	(5)		-	-	(5)
Cost of materials	(447)		-	-	(447)
External services	(5,375)	b)	-	(53)	(5,428)
Leases and rentals	(734)		-	-	(734)
Staff costs	(4,956)	c)	17	15	(4,924)
Amortisation and depreciation	(1,393)	d)	-	926	(467)
Other costs	(398)	f)	(15)	-	(413)
Finance income	536	e)	-	(86)	450
Finance costs	(83)	c)	(17)	-	(100)
Extraordinary income/(expense)	89	f)	(89)	-	-
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**(1,609)**		**(88)**	**802**	**(895)**
Taxation for the period		f); g)	88	(375)	(287)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(1,609)**		**-**	**427**	**(1,182)**
Net profit/(loss) from discontinued operations	-		-	-	-
NET PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(1,609)**		**-**	**427**	**(1,182)**
Net profit/(loss) attributable to minority interests	-		-	-	-
NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY	**(1,609)**		**-**	**427**	**(1,182)**

NOTES TO THE IFRS ADJUSTMENTS AND RECLASSIFICATIONS IN THE INCOME STATEMENT FOR THE FIRST SIX MONTHS OF 2005

The following notes discuss the adjustments and reclassifications as well as references to the adjustments included in the reconciliation of the net loss shown above.

a) *Other income:* the reclassification (-165 thousand euros) reflects the different accounting treatment of extraordinary income under IFRS. Such income, relating to estimated revenues from the previous year, should be classified under revenues.
b) *External services:* this adjustment (-53 thousand euros) relates to recognition in the income statement of the costs incurred in the first six months of 2005 for the registration of trademarks developed internally by the Parent Company. Under Italian GAAP these costs were capitalised as fixed assets (see adjustment 5).
c) *Staff costs:* the reclassification (+17 thousand euros) concerned the imputed interest cost determined by actuarial calculations related to staff termination benefits, which under IFRS should be classified under other finance costs. The adjustment (+15 thousand euros) reflects lower provisions for staff termination benefits on the basis of the actuarial calculations performed under IAS 19 (see adjustment 6).
d) *Amortisation and depreciation:* this adjustment (+926 thousand euros) regards:
    - reversal of the amortisation of goodwill arising from consolidation, totalling 876 thousand euros (see adjustment 2);
    - reversal of the amortisation of start-up and expansion costs, totalling 8 thousand euros (see adjustment 3);
    - reversal of the amortisation of research costs, totalling 36 thousand euros (see adjustment 4);
    - reversal of the amortisation of trademark costs, totalling 6 thousand euros (see adjustment 5).
e) *Financial income*: this adjustment (-86 thousand euros) reflects the reversal of gains on the sale of treasury shares during the first six months of 2005, which under IFRS should be recognised as an increase in equity reserves (see adjustment 1).
f) *Extraordinary income/(expense)*: this reclassification (+89 thousand euros) reflects the different accounting treatment of extraordinary items under IFRS. In fact, these items may no longer be stated separately but must be recognised in the revenue and cost items to which they refer.
g) *Taxation*: this adjustment (-375 thousand euros) relates to:
    - income taxes of 380 thousand euros that was not recognised under Italian GAAP;
    - the positive tax effects primarily deriving from recognition of the cost of registering trademarks in the income statement, totalling 5 thousand euros.