QUARTERLY REPORT
FOR THE THREE MONTHS
ENDED 30 SEPTEMBER 2005

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

(€000)	2005		2004	
	Q3	9M	Q3	9M
Revenues	7,651	18,604	5,185	14,096
Other income	51	271	(8)	1,521
TOTAL REVENUE	**7,702**	**18,875**	**5,177**	**15,617**
Cost of materials and external services	(5,149)	(11,765)	(2,973)	(7,758)
Changes in inventories	8	10	(8)	5
Staff costs	(2,392)	(7,316)	(2,061)	(6,409)
Amortisation and depreciation	(229)	(696)	(257)	(925)
Impairment charges/reversal of impairment charges	-	-	-	(83)
Other costs	(225)	(638)	(131)	(311)
Finance income	551	1,001	113	453
Finance costs	(55)	(155)	(20)	(111)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**211**	**(684)**	**(160)**	**478**
Taxation	(576)	(863)	(314)	(680)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(365)**	**(1,547)**	**(474)**	**(202)**
Net profit/(loss) from assets held for sale/discontinued operations	-	-	-	-
NET PROFIT/(LOSS) BEFORE MINORITY INTEREST	**(365)**	**(1,547)**	**(474)**	**(202)**
Net profit/(loss) attributable to minority interest	-	-	-	-
NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY	**(365)**	**(1,547)**	**(474)**	**(202)**
Earnings per share	(0.09)	(0.40)	(0.12)	(0.05)
Diluted earnings per share	(0.09)	(0.40)	(0.12)	(0.05)

CONSOLIDATED BALANCE SHEET

(€000)	**30 Sept 2005**	**31 Dec 2004**
Non-current assets:		
Property, plant and equipment	1,172	1,089
Goodwill arisng from consolidation	11,534	11,531
Other intangible assets	939	924
Other non-current assets	87	86
Deferred tax assets	476	459
TOTAL NON-CURRENT ASSETS	**14,208**	**14,089**
NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATING ASSETS	**-**	**-**
Current assets:		
Inventories	99	88
Trade receivables	10,331	9,380
Other current assets	1,762	1,608
Current financial assets	24,406	17,931
Cash and cash equivalents	7,388	13,926
TOTAL CURRENT ASSETS	**43,986**	**42,933**
TOTAL ASSETS	**58,194**	**57,022**
Shareholders' equity:		
Share capital	1,084	1,084
Share premium reserve	55,106	55,106
- Treasury shares	(3,873)	(3,206)
- Cost for capital increase	(59)	(59)
Other reserves	72	782
Retained profit/(accumulated losses)	(3,143)	(3,235)
Net profit/(loss) for the period	(1,547)	(765)
Shareholders' equity attributable to the Parent Company	**47,640**	**49,707**
Minority interest	30	30
TOTAL SHAREHOLDERS' EQUITY	**47,670**	**49,737**
Non-current liabilities		
Non-current financial liabilities	221	256
Staff termination benefits and other employee benefits	894	767
TOTAL NON-CURRENT LIABILITIES	**1,115**	**1,023**
NON-CURRENT LIABILITIES HELD FOR SALE	**-**	**-**
Current liabilities:		
Current financial liabilities	74	137
Trade payables	6,395	3,923
Tax liabilities	1,171	390
Other current liabilities	1,769	1,812
TOTAL CURRENT LIABILITIES	**9,409**	**6,262**
TOTAL LIABILITIES	**10,524**	**7,285**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**58,194**	**57,022**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOREWORD

The Acotel Group's quarterly report for the three months ended 30 September 2005 includes the first financial statements to be prepared under IAS/IFRS, whose application in the preparation of the consolidated financial statements of listed European groups has become mandatory in the current year. Comparative data for the corresponding period of 2004 has been restated and presented in accordance with the new accounting standards. Further details of the effects of the application of these standards on the published financial statements for 2004 are provided in the annexes to the interim report for the six months ended 30 June 2005 and to this quarterly report for the three months ended 30 September 2005.

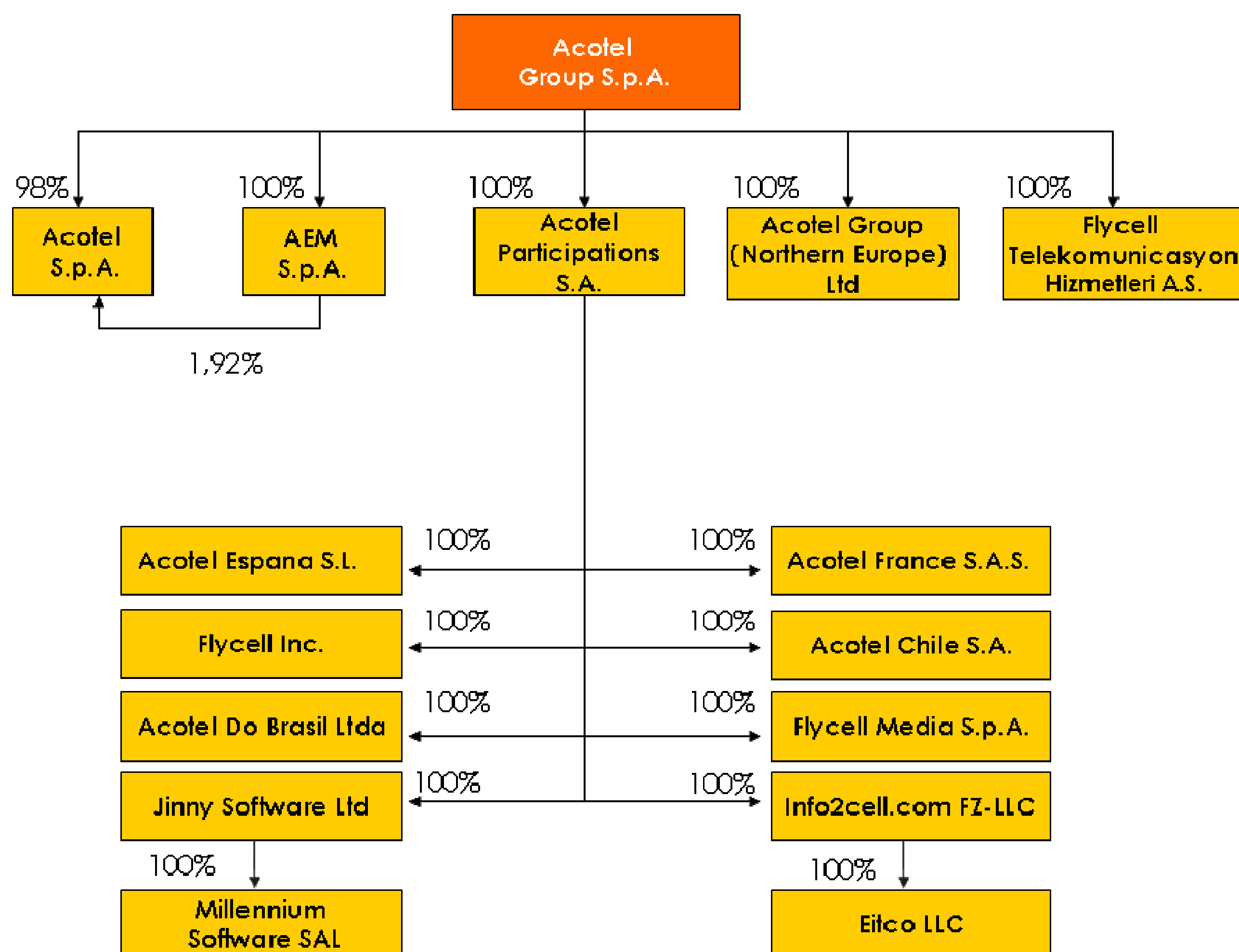
BASIS OF PREPARATION

The consolidated financial statements for the three months ended 30 September 2005 have been prepared, as noted, in accordance with the accounting policies and measurement criteria established under IAS/IFRS issued by the International Accounting Standards Board (IASB) and the related interpretations (IFRIC) issued by the European Commission, according to the procedure laid down by EU Regulation no. 1606/2002, enacted by the European Parliament and the European Council on 16 July 2002. Moreover, account was taken of the guidelines issued by the Italian Regulatory Commission for Companies and the Stock Market (CONSOB) contained in the Regulations for Issuers (Resolution no. 11971 of 14 May 1999 and subsequent amendments), as amended by CONSOB resolution no. 14990 dated 14 April 2005.

The consolidated quarterly financial statements include the accounts of *Acotel Group S.p.A.* and those of the Italian and foreign registered companies over which *Acotel Group S.p.A.* exercises direct or indirect control, via control of a majority of the voting rights or of sufficient voting rights to have a dominant influence at ordinary general meetings.

The consolidated financial statements for the three months ended 30 September 2005 have been prepared on the basis of the underlying accounting records at that date, as adjusted in accordance with the matching principle.

The chart below shows the structure of the Acotel Group at 30 September 2005.



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 ownership (%)	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	40,000
Jinny Software Ltd.	9 April 2001	100% (5)	Dublin	EURO	2,972
Millennium Software SAL	9 April 2001	99.9% (6)	Beirut	LBP	30,000,000
Info2cell.com FZ-LLC	29 January 2003 (3)	100% (5)	Dubai	AED	18,350,000
Emirates for Information Technology Co.	29 January 2003	100% (7)	Amman	JOD	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)	100% (8)	Istanbul	TRY	50,000

(1) The date of the company’s entry into the Group coincides with its incorporation.
(2) Prior to such date the Group already held 50% of the company’s share capital under investments in associated companies.
(3) Prior to such date the Group already held 33% of the company’s share capital under investments in associated companies.
(4) AEM owns 1.92% of the share capital.
(5) Controlled via Acotel Participations S.A.
(6) Controlled via Jinny Software Ltd.
(7) Controlled via Info2cell.com LLC-FZ.
(8) Minority shareholders own 0.08%.

ACCOUNTING STANDARDS AND POLICIES

Below a description is provided of the accounting standards and policies that will be adopted in the preparation of the consolidated financial statements for the year ended 31 December 2005 and that have been adopted in preparing the IAS/IFRS accounts included in this report.

The consolidated financial statements have been prepared under IFRS, as issued by the IASB and endorsed by the EU at 1 January 2005. IFRS are understood to mean all the revised international accounting standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC). These standards might not be the same as the IAS/IFRS that will take effect from 31 December 2005 due to future changes arising from the endorsement of IAS/IFRS or the issue of new standards or their interpretations by the International Accounting Standard Board (IASB) or the International Financial Reporting Interpretations Committee (IFRIC).

Amounts in the financial statements are in thousands of euros.

Basis of consolidation

The consolidated financial statements include the financial statements of Acotel Group S.p.A. and those of the Italian and foreign companies over which Acotel Group S.p.A. directly or indirectly exercises control.

The assets and liabilities and the revenues and expenses of consolidated companies are recorded on a line-by-line basis. The book value of investments is eliminated against the corresponding share of the investee companies' shareholders' equity and the individual assets and liabilities are recognised at fair value at the date control was obtained. Any positive difference is recognised in non-current assets as "Goodwill arising from consolidation", while negative differences are recognised in the income statement.

Profits and losses and revenues and expenses arising from inter-company transactions and unrealised in respect of third parties are eliminated.

The accounts of foreign subsidiaries denominated in currencies other than the euro are translated into such currency on the basis of average exchange rates for the period, as published by the Italian Exchange Office.

ACCOUNTING POLICIES

The following is a summary of significant accounting policies adopted in the preparation of the consolidated financial statements.

Property, plant and equipment

Tangible assets utilised in the production or supply of goods and services are recognised at cost,

inclusive of any incidental expenses and the direct costs incurred to make the asset ready for use.

Property, plant and equipment are depreciated each year on a straight-line basis over their estimated useful life, at the following rates:

ICT platform	50%
Specific plant	10-20%
Other plant and machinery	15-20%
Computers	20%
Other equipment	15-25%
Vehicles	25%
Furniture, fixtures and fittings	12%

The recoverability of the value of assets is estimated in accordance with the criteria set out by IAS 36, as illustrated below in the section “Impairment of assets”.

Gains and losses on disposals are calculated as the difference between the proceeds from asset sales and the net book value of such assets, and are recognised in the income statement for the period.

Routine maintenance and repair costs are charged to the income statement as incurred.

Improvements designed to increase the future economic benefits of tangible assets are capitalised and depreciated in accordance with the estimated useful lives of the related assets.

Leasehold improvements that qualify for recognition are accounted for as tangible assets and depreciated over the shorter of the residual term of the related lease and the remaining useful life of the asset.

Intangible assets

Intangible assets are recognised at purchase or production cost, inclusive of any directly attributable incidental expenses incurred to make the asset ready for use.
Intangible assets are amortised regularly as of the moment the asset is ready for use on the basis of their expected useful lives.

The recoverability of the value of assets is estimated in accordance with the criteria established by IAS 36, as illustrated below in the section “Impairment of assets”.

Research and development costs are charged to the income statement as incurred.

Patents and software are recognised at cost and are amortised on a straight-line basis over the remaining useful life of the asset.

Goodwill, goodwill arising from consolidation and other intangible assets with indefinite useful lives are not amortised on a regular basis. They are instead subject to impairment tests at least once a year in respect of the cash-generating unit that has benefited from the synergies resulting from the acquisition. These impairments are not reversed.

Impairment of assets

At each reporting date, the Group reviews the carrying value of its tangible and intangible assets to determine whether there are any indications of impairment. Should such indications be observed, the recoverable amount of these assets is estimated to calculate any impairment charges. If the recoverable amount of an individual asset cannot be estimated, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverability of intangible assets with indefinite useful lives is tested each year or whenever there is an indication of a possible impairment.

The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In calculating value in use, future cash flow estimates are discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the business.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be lower than the relevant carrying value, then the value of the asset is written down to this lower recoverable amount. The resulting impairment charge is immediately recognised in the income statement.

When an impairment no longer exists, the carrying amount of the asset (or cash-generating unit), with the exception of goodwill, is increased to its new estimated recoverable amount. The reversal must not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment charge been recognised for the asset in prior periods. The reversal of an impairment charge is recognised immediately as income in the income statement.

Inventories

Inventories are entered at the lower of cost and net realisable value. Cost includes direct materials and direct labor, where applicable, production overhead as well as shipping and maintenance costs. Cost is calculated using the weighted average cost method. Net realisable value reflects the selling price less any estimated costs of completion and to sell.

Receivables

Receivables are recognised at their estimated realisable value. Accounts denominated in currencies other than the euro are translated at closing exchange rates.

Current financial assets

Current financial assets are carried at amortised cost using the effective interest method.

Financial assets held for trading are stated at fair value at the end of each period. Gains and losses arising from changes in fair value are recognised in the income statement.

Treasury shares

Treasury shares are measured at cost and deducted from shareholders' equity. Gains and losses arising from trading in treasury shares are recognised in shareholders' equity.

Cash and cash equivalents

This item includes cash on hand, bank and other demand deposits, highly liquid short-term investments that may be readily converted into cash and are not subject to significant changes in value.

Employee benefits

Under IAS 19, staff termination benefits are classifiable as post-employment benefits equivalent to a defined-benefit plan. The amount accrued under the plan is projected to estimate the future liability at the time of termination and then discounted to present value using the projected unit credit method. This is an actuarial method based on demographic and financial assumptions, designed to arrive at a reasonable estimate of the benefits attributable to each employee based on their years of service.

Actuarial calculations determine the current service cost, which reflects the benefits accrued to employees during the period, as reported in the income statement under "staff costs", and the interest cost, representing the imputed interest that the Company would have paid to lenders had it borrowed an amount equivalent to the provisions.

Actuarial gains and losses are recognised as income or expense if the net cumulative unrecognised actuarial gains and losses for each plan at the end of the previous reporting period exceeded the greater of 10% of the present value of the defined benefit obligation (the so-called corridor method).

Payables

Trade payables are accounted for at face value. Payables denominated in currencies other than the euro are translated at closing exchange rates.
Financial liabilities are accounted for at amortised cost.

Income taxes

Current income tax is recognised, for each Group company, on the basis of their estimated taxable income in accordance with tax rates and rules in force, or as approved at the close of the fiscal year in each country, taking account of applicable exemptions and tax credits.

Deferred tax assets and liabilities are calculated on temporary differences between the book value of assets and liabilities and their tax bases, in accordance with the tax rates in force when the differences will reverse. In the case of results taken directly to equity, current taxes and deferred tax assets and liabilities are also taken to equity.

Dividends

Dividends are recognised when the right to receive payment is established.

Earnings per share

Earnings per share is calculated by dividing net profit by the average weighted number of shares outstanding in the period. Diluted earnings per share is computed taking into account the average number of shares outstanding and the potential dilutive effect arising from the assignment of treasury shares to beneficiaries vested under share option plans.

Revenues

Sales and service revenues are recognised when the significant risks and rewards of ownership of the goods have been transferred to the buyer or when the service is rendered.
In particular:

- revenues from services rendered are recognised on the basis of the actual service rendered during the year;
- revenues from software licensing to third parties are recognised upon transfer;
- revenues from the design, production and installation of electronic systems are recognised upon rendering the service and delivery of the relevant products to, and acceptance by, the customer.

OTHER INFORMATION

This quarterly report is unaudited.

NOTES TO THE INCOME STATEMENT

The Acotel Group reports an improved performance for the third quarter of 2005, in contrast to the first nine months of the year. This was mainly due to the more than proportional increase in revenues between July and September 2005, compared with the corresponding increase in costs.
Compared to the same period of 2004, total revenue for the third quarter of 2005 rose by 49%, mostly as a result of the significant improvement in revenues from the subsidiaries, *Info2cell* (up 208% on the same period of 2004), *Jinny Software* (up 194%), *Acotel do Brasil* (up 31%) and *Acotel S.p.A.* (up 11%) and the start-up of operations of the subsidiary, *Flycell Inc.*, in the United States. The pre-tax result for the quarter improved from a loss of 160 thousand euros to a profit of 211 thousand euros. On an after-tax basis, the Group reports a loss of 365 thousand euros, registering an 11% improvement on the comparable amount for the third quarter of 2004.

Costs that showed a significant increase on the same period of 2004 included:
- service costs (up 95%), due mainly to the fees paid during the quarter by *Info2Cell* to *Pepsi-Cola International, Cork* (960 thousand euros) under a commercial agreement signed between the parties at the end of the first half of 2005, and advertising costs, which rose from 113 thousand euros in the third quarter of 2004 to 926 thousand euros in the quarter under review;
- staff costs, due to an increase in staff reported by Group companies.

Finance income also improved during the quarter, due to higher amounts of liquidity invested in short-term instruments.

Revenues

Sales and service revenues break down as follows by segment:

(€000)	2005		2004	
	Q3	9M	Q3	9M
SERVICES	5,906	14,775	4,267	11,301
ICT EQUIPMENT	1,252	2,808	460	1,575
SECURITY SYSTEMS	493	1,021	458	1,219
OTHER REVENUES	-	-	-	1
Total	**7,651**	**18,604**	**5,185**	**14,096**

<u>Services</u>

A breakdown of services by business segment is provided below:

(€000)	2005		2004	
	Q3	9M	Q3	9M
SERVICES TO NETWORK OPERATORS	4.177	11.321	3.965	10.751
CORPORATE SERVICES	1.088	2.083	80	227
B2C SERVICES	377	679	-	-
MEDIA SERVICES	264	692	222	323
Total	**5.906**	**14.775**	**4.267**	**11.301**

Revenues from value added services (VAS) provided to network operators, amounting to 4,177 thousand euros, rose by nearly 5.3% on a year earlier.

They include revenues from services rendered by *Acotel S.p.A.* to *TIM Italia S.p.A.*, which amounted to 2.7 million euros for the period, revenues from services rendered by the Brazilian subsidiary, *Acotel do Brasil*, to Brazilian mobile operators, which amounted to 0.9 million euros, revenues for services rendered by *Info2cell* to the main mobile telephony operators in the Middle East, amounting to approximately 0.4 million euros, and revenues generated by *Acotel Group (Northern Europe)* for services to European operators, totalling 0.2 million euros.

Revenues from corporate services amounted to 1,088 thousand euros. The significant increase on a year earlier was due mainly to the agreement signed by the subsidiary, *Info2cell*, with *Pepsi-Cola International, Cork*. This agreement involves the provision of ICT services, between June and September 2005, to support the soft drinks company's promotional campaigns in certain Middle Eastern countries.

In the first half of 2005, the B2C segment commenced operations, engaging in the sale of services and mobile applications directly to consumers. Revenues for the quarter were mainly generated by the subsidiaries, *Flycell* and *Acotel Group (Northern Europe)*, which generated 329 thousand euros and 42 thousand euros, respectively, through the Flycell brand.

Revenues from media services (services to television and radio stations, newspapers, magazines, etc.) rose by 19% on the comparable amount in 2004 to 264 thousand euros. Revenues of 123 thousand euros were generated in Italy, mainly in connection with certain programs broadcast by *MTV* and *LA7* and by radio station *RTL*. Revenues generated in the Middle East amounted to 107 thousand euros for services rendered to *SMS 2 TV*, while revenues generated in Brazil totalled 34 thousand euros, and regarded services rendered to *Radio Globo*.

ICT equipment

Revenues from ICT equipment in the third quarter of 2005 are attributable to the Irish subsidiary, *Jinny Software*. They amount to 1,252 thousand euros, generated mainly in connection with the supply and maintenance contracts in place with mobile companies operating in Latin America, Africa, Europe, Asia and the Middle East. The significant increase on a year earlier is due to the agreements signed with Channel Partners, which determined an increase in the external sales force, and the provision of innovative VAS platforms with distributed architecture that made it possible for *Jinny Software* to gain a stronger foothold in the network equipment business.

Security equipment

Revenues from the design and production of electronic security systems for the quarter amounted to 493 thousand euros, relating essentially to the activities of the subsidiary, *AEM S.p.A.*, in connection with installation, supply, assistance and maintenance services for remote surveillance equipment located in police stations throughout Italy and in some Bank of Italy provincial branches. Revenues in this area were up 8% on the same period of 2004, mainly as a result of upgrading activities and extraordinary maintenance of the alarm systems located in branches of the Bank of Italy.

The geographic distribution of sales and service revenues is as follows:

(€000)	**2005**		**2004**	
	Q3	**9M**	**Q3**	**9M**
ITALY	3,400	9,228	3,250	9,660
MIDDLE EAST	1,985	4,455	813	2,065
LATIN AMERICA	900	2,110	674	812
OTHER EUROPEAN COUNTRIES	623	1,312	448	1,299
AFRICA	331	556	-	214
NORTH AMERICA	329	467	-	-
ASIA	83	476	-	46
Total	**7,651**	**18,604**	**5,185**	**14,096**

The above breakdown shows a decrease in Italian revenues (which, however, still grew) as a share of Group revenues, as they dropped from 63% in the third quarter of 2004 to 44% in the third quarter of 2005. This was due to the significant increase in revenues generated by *Info2cell* in the Middle East, by *Acotel do Brasil* in Latin America and, in Europe, by *Jinny Software*, which also allowed the Group to establish a presence in Africa and Asia. The subsidiary, *Flycell Inc.*, also commenced operations in North America.

Materials, service costs and lease expense

This item includes the following costs:

(€000)	2005		2004	
	Q3	9M	Q3	9M
Materials	476	930	436	581
Service costs	4.345	9.773	2.224	6.174
Lease expense	328	1.062	313	1.003
Total	**5.149**	**11.765**	**2.973**	**7.758**

The cost of raw and ancillary materials, consumables and goods for resale in the third quarter of 2005 totals 476 thousand euros and refers to the acquisition of materials used in the construction of telecommunications equipment by Jinny Software Ltd.

Service costs in the third quarter of 2005 amounted to 4,345 thousand euros, up 95% on a year earlier. This increase was due basically to the above-mentioned agreement entered into between the subsidiary, *Info2Cell*, and *Pepsi-Cola International, Cork*. As previous communicated, such agreement calls for the payment of 95% of the revenues received by *Info2Cell* from the Middle Eastern mobile operators to *Pepsi-Cola* for its contribution in terms of advertising communication and distribution.
The increase in service costs was also due to the advertising campaigns designed to support the B2C segment, carried out especially by *Flycell Inc.* and *Acotel Group (Northern Europe)* which, during the quarter under review, incurred expenses amounting to 723 thousand euros and 161 thousand euros, respectively.
Specifically, the biggest expenditure item for the quarter were the 960 thousand euros paid to *Pepsi-Cola*, the 926 thousand euros for advertising and the 823 thousand euro outlay incurred to acquire content from external providers.
Moreover, service costs comprised marketing, administrative, legal and technical consulting fees incurred by Group companies, amounting to 293 thousand euros, travel expenses of 147 thousand euros, fees paid to directors and statutory auditors, totalling 135 thousand euros, and the purchase of SMS packages from mobile operators, amounting to 133 thousand euros.
The balance reflects overheads (utilities, connection expenses, outsourcing, telephone expenses, etc.) incurred by the Group in its day-to-day operations.

Lease expense primarily includes costs related to the buildings in which Group companies operate.

Staff costs

Staff costs break down as follows:

(€000)	2005		2004	
	Q3	9M	Q3	9M
Wages and salaries	1,851	5,461	1,533	4,754
Social security contributions	327	1,116	345	1,027
Staff termination benefits	55	159	34	137
Other costs	159	580	149	491
Total	**2,392**	**7,316**	**2,061**	**6,409**

The increase in staff costs is due to the increase in staff numbers, especially in foreign subsidiaries, as a result of the Group's expansion in Europe, Middle East, Latin America and the United States.

The following table shows the number of staff by category as of 30 September 2005 and the average for the period compared with the third quarter and the first nine months of 2004 and 2005.

	At 30 Sept 2005	Average Q3 2005	Average Q3 2004	Average 9M 2005	Average 9M 2004
Managers	14	14	17	14	16
Supervisors	29	30	27	29	26
White-collar/Blue-collar	211	202	145	190	149
Total	**254**	**246**	**189**	**233**	**191**

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

	At 30 Sept 2005	At 30 Sept 2004
Italy	95	92
Ireland	24	17
France	2	4
Lebanon	32	30
Brazil	16	10
United Arab Emirates	19	14
Jordan	54	28
USA	12	4
Total	**254**	**199**

Amortisation and depreciation

Amortisation and depreciation relate to:

(€000)	2005		2004	
	Q3	9M	Q3	9M
Amortisation of intangible assets	80	220	73	200
Depreciation of property, plant and equipment	149	476	184	725
Total	**229**	**696**	**257**	**925**

The amortisation of intangible assets mainly relates to software and licenses.

Depreciation of tangible assets relates to telecommunications equipment, other plant and machinery and the infrastructure used by Group companies.

Other operating costs

In the third quarter of 2005, this item amounted to 225 thousand euros, due mainly to indirect taxes paid by Acotel do Brasil in accordance with local laws.
The balance includes other overheads deriving from the Group's ordinary activities.

Finance income and costs

During the quarter under review finance income amounted to 551 thousand euros, while finance costs totalled 55 thousand euros.
Finance income included mostly foreign exchange gains and income on the investment of liquidity in short-term instruments, repurchase agreements and units in equity and bond mutual funds.

Finance costs relate mainly to interest expense and bank commissions.

Taxation

Income taxes for the period, amounting to 576 thousand euros, mainly reflect the estimated income taxes due from Group companies and the reversal of deferred tax assets from previous years.

NOTES TO THE BALANCE SHEET AND CASH FLOW

At 30 September 2005 "**Non-current assets**" amounted to 14,208 thousand euros.

"Property, plant and equipment", amounting to 1,172 thousand euros, mainly consists of data transmission platforms installed in Rome, Dubai, Dublin, Rio De Janeiro and New York, used by the Group to provide value added services, and equipment for the production of security equipment; computers used by the Group for development and maintenance of hardware and software products, for use by the Company or for sale to third parties, relating to the development and management of value added services and internal operating activities; furniture, fixtures and fittings and company vehicles as well as leasehold improvements, which mainly reflect costs incurred over the past few years to restructure the building in Rome leased in order to house the offices and facilities of the Group's Italian companies.

"Goodwill arising from consolidation" reflects the difference between the prices paid to acquire investments in *AEM*, *Jinny Software*, *Millennium Software*, *Info2cell* and *EITCO*, net of accumulated amortisation recognised in the year prior to the introduction of IAS/IFRS (January 1, 2004) and impairment charges recognised in application of IAS/IFRS, as illustrated in Annex 1 to the interim report for 2005 relating to the transition to IAS/IFRS, to which reference should be made.

"Other intangible assets", amounting to 939 thousand euros, mainly include the cost of the software utilised by the subsidiary, *Info2cell*, to provide value added services (VAS), and of the customised software programs ordered from suppliers in order to render ICT services and to operate the IT network within Group companies.

"Other non-current assets", amounting to 87 thousand euros, refer entirely to guarantee deposits paid to landlords and utility companies by Group companies.

"Deferred tax assets", totalling 476 thousand euros, derive from temporary differences between the book value and the tax bases of assets and liabilities.

At 30 September 2005, "**Current assets**" amounted to 43,986 thousand euros.

"Inventories", totalling 99 thousand euros, are valued according to the weighted average cost method and stated net of provisions for stock write-downs of 568 thousand euros, provided to adjust inventories to their estimated realisable value.

"Trade receivables", amounting to 10,331 thousand euros, are shown net of provisions for doubtful debts, totalling 273 thousand euros. Such provisions are made to bring receivables into line with their estimated realisable value.
All trade receivables for which provisions have not been made are assumed to fall due within 12 months.

"Other current assets", totalling 1,762 thousand euros, relate mainly to the VAT credit attributable to *Flycell Media S.p.A.* and prepayments to suppliers under ongoing service contracts and insurance prepayments by Group companies.

“Current financial assets”, amounting to 24,406 thousand euros, refer to the short-term investment of a part of the Group’s liquidity. Investments in bonds issued by *Banca Nazionale del Lavoro* and by *Monte dei Paschi di Siena* amount to 10,481 thousand euros, while investments in bonds managed by Bank Insinger de Beaufort amount to 5,112 thousand euros. The remaining amount includes 4,099 thousand euros in repurchase agreements entered into with Monte dei Paschi di Siena, 3,701 thousand euros in insurance products issued by *Monte dei Paschi di Siena,* including interest accrued to 30 September 2005. A further 1,0123 thousand euros is invested in government securities held by the Brazilian subsidiary.

“Cash and cash equivalents” includes bank deposits of 7,375 thousand euros and cash and notes in hand totalling 13 thousand euros.
Bank deposits represent the balances held at various institutes as of 30 September 2005.

At 30 September 2005 “**Shareholders’ equity**” amounted to 47,640 thousand euros, net of the minority interest of 30 thousand euros. The table below shows changes in shareholders’ equity, including the adjustments associated with the first-time adoption of IFRS (January 1, 2004) and net profit for 2004, as shown in Annex 1 to the interim report for 2005 (to which reference should be made) regarding the the transition to IAS/IFRS.

(€/000)	Share capital	Share premium reserve	- Treasury shares	- Cost of capital increase	Currency translation reserve	Other reserves	Retained profit	Net profit/(loss) for the period	TOTAL
Balances at 1 Jan 2004 under IAS/IFRS	**1.084**	**55.106**	**(498)**	**(59)**	**(297)**	**213**	**2.660**	**(4.986)**	**53.223**
Allocation of net profit/(loss) for 2003							(4.986)	4.986	**-**
Purchase of treasury shares			(2.708)						**(2.708)**
Other changes					(27)	(16)			**(43)**
Net profit/(loss) for 2004								(765)	**(765)**
Balances at 31 Dec 2004 under IAS/IFRS	**1.084**	**55.106**	**(3.206)**	**(59)**	**(324)**	**197**	**(2.326)**	**(765)**	**49.707**
Allocation of net profit/(loss) for 2004						52	(817)	765	**-**
Purchase of treasury shares			(667)						**(667)**
Other changes					51	96			**147**
Net profit/(loss) for the period								(1.547)	**(1.547)**
Balances at 30 Sept 2005 under IAS/IFRS	**1.084**	**55.106**	**(3.873)**	**(59)**	**(273)**	**345**	**(3.143)**	**(1.547)**	**47.640**

At 30 September 2005 the entirely paid-up share capital of *Acotel Group S.p.A.* consists of 4,170,000 ordinary shares with a par value of 0.26 euros each.

"Non-current liabilities", amounting to 1,115 thousand euros, include 221 thousand euros in "Non-current financial liabilities", which reflects the long-term portion of the loan granted by the Ministry of Industry to meet RESEARCH costs incurred by the subsidiary, *AEM S.p.A.*, to develop remote surveillance and household automation systems. Repayment of this loan began in 2003 and will be completed by 2012. This loan carries a 3.625% interest rate and is unsecured.
The remaining 894 thousand euros relates to staff termination benefits, net of advances granted to employees, calculated according to the actuarial method discussed above in connection with accounting policies.

At 30 September 2005 "**Current liabilities"** amounted to 9,409 thousand euros.

"Current financial liabilities", amounting to 74 thousand euros, relate to the short-term portion of the above loan granted by the Ministry of Industry and the balance due on a loan, granted for the same purpose by San Paolo-IMI, which is scheduled to be fully repaid in 2005.

"Trade payables", amounting to 6,395 thousand euros, consist of amounts due to suppliers within 12 months and down-payments received by Group companies from their customers.

"Tax liabilities", amounting to 1,171 thousand euros, include income taxes, net of tax prepayments, VAT payable by Group companies, and taxes withheld on salaries and fees paid to external consultants and to be paid on to tax authorities.

"Other current liabilities", totalling 1,769 thousand euros, mainly include accrued salaries and bonuses, unused holiday pay, social security and other insurance contributions and directors' fees.

ANALYSIS OF NET LIQUIDITY/(DEBT)

(€000)

	30 Sept 2005	30 June 2005	31 Dec 2004	30 Sept 2004
Short-term investments	24,406	21,247	17,931	29,107
Cash and cash equivalents	7,388	8,155	13,926	4,296
Short-term bank borrowings and current portions of long-term bank borrowings	(74)	(118)	(137)	(331)
Net cash and cash equivalents (A)	**31,720**	**29,284**	**31,720**	**33,072**
Medium-to long-term borrowings	(221)	(221)	(256)	(284)
Medium- to long-term debt (B)	**(221)**	**(221)**	**(256)**	**(284)**
Net liquidity/(debt) (A)+(B)	**31,499**	**29,063**	**31,464**	**32,788**

At 30 September 2005 net liquidity amounted to 31,499 thousand euros, up compared with 29,063 thousand euros at 30 June 2005, and basically in line with the comparable amount at 31 December 2004.

CONSOLIDATED CASH FLOW STATEMENT

(€000)	**9M 2005**
A. NET CASH AT BEGINNING OF PERIOD	**31,720**
B. CASH FLOWS FROM (FOR) OPERATING ACTIVITIES	**1,370**
Cash flows from operating activities before changes in working capital	**(701)**
Net profit for the period	(1,547)
Amortisation, depreciation and impairment charges	696
Impairments of current assets	23
Net change in staff termination benefits	127
(Increase) / decrease in accounts receivable	(1,128)
(Increase) / decrease in inventories	(11)
Increase/(decrease) in payables	3,210
C. CASH FLOW FROM (FOR) INVESTING ACTIVITIES	**(815)**
(Investments)/disposals of fixed assets:	
- Intangibles	(238)
- Tangibles	(559)
- Financial	(18)
D. CASH FLOW FROM (FOR) FINANCIANG ACTIVITIES	**(555)**
Increase/ (decrease) in medium- to long-term borrowings	(35)
Other changes in shareholders' equity	(520)
E. CASH FLOW FOR THE PERIOD (B+C+D)	**(0)**
F. NET CASH AT END OF PERIOD (A+E)	**31,720**

Cash flow for the period was zero, indicating the Group’s ability to generate sufficient operating cash flow to finance the Group’s activities, especially the start-up phase of certain foreign subsidiaries as well as the introduction of B2C services.

SUBSEQUENT EVENTS

After the end of the quarter, *Jinny Software* obtained four new contracts in Africa for the provision of three MMS-C, two SMS-C and a Ring Back Tones Server worth approximately 1.3 million euros.
In addition, *Jinny Software* set up four trials-to-buy for the provision of network equipment to local mobile operators in Europe, Asia and Middle East. Should these trials turn into purchase orders, the associated revenues would amount to approximately 1.1 million euros.

On 7 November, with the help of Info2cell, Pepsi-Cola International launched a new promotional campaign to support its Miranda and Mountain Dew brands. This campaign will last for the next two months and, like the one undertaken between June and September, the provision of services will take place through eight mobile operators in Saudi Arabia, Kuwait, Qatar, Oman, Bahrain and the United Arab Emirates.

OPERATING OUTLOOK

For information on the operating outlook, reference should be made to the comparable section of the interim report for the six months ended 30 June 2005.

ANNEX - TRANSITION TO IAS/IFRS (INTERNATIONAL ACCOUNTING STANDARDS/INTERNATIONAL FINANCIAL REPORTING STANDARDS)

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 2005 consolidated financial statements in accordance with IAS/IFRS, as issued by the International Accounting Standards Board (IASB) and endorsed by the EU.

For previous periods presented for comparative purposes, this Annex provides the reconciliation between the result for the period under Italian GAAP and IAS/IFRS, as required by IFRS 1 – "First-time adoption of International Financial Reporting Standards", as well as the relevant notes. The reconciliation between the result for 2004 and shareholders' equity at December 31, 2004 is provided in Annex 1 to the interim report for 2005.

The adjustments shown in the reconciliations have been prepared under the IAS/IFRS in force to date. The adoption process by the European Commission and the adaptation and interpretation activity by the relevant official bodies is still underway. Thus, there might be new IAS/IFRS and IFRIC interpretations in place at the time of preparation of the consolidated financial statements for the year ended 31 December 2005. This might determine a change in the statements and reconciliations hereunder, when they will be utilised for comparative purposes in the first consolidated financial statements to be prepared under IAS/IFRS.

It should be noted that, since they are intended only for the purposes of transition in respect of the Group's first consolidated financial statements (at 31 December 2005) to be prepared under IAS/IFRS as endorsed by the European Commission, the IAS/IFRS reconciliations do not show the comparable amounts or the information and related notes that would be necessary to provide a true and fair view of the consolidated financial position and results of operations of the Acotel Group at and for the periods ended 31 December 2004 and 30 September 2004 under IAS/IFRS. Such additional information will be provided in the first IAS/IFRS consolidated financial statements for the year ended 31 December 2005.

RECONCILIATIONS REQUIRED BY IFRS 1

In accordance with IFRS1, this Annex includes reconciliation between the published income statement for the three months ended 30 September 2004 and for the first nine months ended on the same date prepared under Italian GAAP and the corresponding income statement prepared under IAS/IFRS.

The financial position and results of operations for 2004 have been prepared according to IFRS1 – "First-time Adoption of International Financial Reporting Standards". In particular, the IAS/IFRS published by 31 December 2004 have been applied from 1 January 2005.

FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Acotel Group has retrospectively applied the accounting standards in force at 31 December 2004 across all periods. The Group did, however, elect to apply the following exemptions:

- business combinations: as a first-time adopter of IAS/IFRS, the Acotel Group elected not to retrospectively apply IFRS3 to business combinations occurring prior to the date of transition to IAS/IFRS (1 January 2004). Thus, the fair value of the assets and liabilities of the companies acquired by the Group has not been determined;
- measurement of property, plant and equipment and intangible assets: the Acotel Group elected to use historical cost (in alternative to fair value) to measure tangible and intangible assets after initial recognition;
- employee benefits: with respect to post-employment benefits, the Acotel Group has decided not to retrospectively apply the so-called "corridor" approach, which calls for the full recognition of all cumulative actuarial gains and losses until the date of transition to IFRS, and to adopt instead the corridor approach for gains and losses after the transition date;
- financial instruments: the Acotel Group has not elected to postpone the date of transition to IAS 32 and 39 to 1 January 2005, taking account of the relevant effects in preparing the opening balance sheet as of 1 January 2004;
- share-based payment transactions: the Acotel Group has elected to apply IFRS 2 prospectively as of 1 January 2005. Thus, the effects of the transition to IAS/IFRS have not been recognised for share options assigned prior to 7 November 2002.

The 2004 financial statements will represent the comparative information used in the consolidated financial statements for the year ended 31 December 2005 and in the interim and quarterly financial statements for 2005. As noted previously, such information may change due to the review or modification of international financial reporting standards in 2005. Any such review or modification would produce effects on the 2004 financial statements as restated under IAS/IFRS, including those for the third quarter and the first nine months of 2004, as reported below.

EFFECTS OF APPLICATION OF IAS/IFRS ON THE INCOME STATEMENT FOR THE THIRD QUARTER AND THE FIRST NINE MONTHS OF 2004

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

(€000)	Net result Q3 2004	Net result 9M 2004
TOTAL AMOUNTS UNDER ITALIAN GAAP	(612)	(849)
Less: share attributable to minority interest	-	-
SHARE ATTRIBUTABLE TO PARENT COMPANY UNDER ITALIAN GAAP	**(612)**	**(849)**
Income tax for the period	(316)	(699)
ADJUSTMENTS (*):		
1. reversal of goodwill arising from consolidation	438	1,315
2. reversal of start-up and expansion costs	5	17
3. reversal of research costs	18	56
4. reversal of trademark costs	(10)	(58)
5. adjustment to staff termination benefits	1	(3)
Tax effect on reconciled items	2	19
Minority interest in reconciled items	-	-
SHARE ATTRIBUTABLE TO PARENT COMPANY UNDER IAS/IFRS	**(474)**	**(202)**

(*) Unaudited data

In order to reconcile the results of the two periods shown above determined under Italian GAAP with the results calculated under IAS/IFRS, the reconciliation shows income tax for the third quarter (316 thousand euros) and the first nine months of 2004 (699 thousand euros).

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

The main IAS/IFRS adjustments are discussed below:

1. Reversal of goodwill arising from consolidation: under IAS/IFRS, goodwill arising from consolidation is no longer amortised on a regular basis but is subject to impairment tests, which are conducted at least once a year in order to determine any impairment charge.
   The application of IFRS 3 has determined an improvement in the net result for the third quarter of 2004 (438 thousand euros) and for the first nine months of 2004 (1,315 thousand euros) as a result of the elimination of goodwill amortisation;
2. Reversal of start-up and expansion costs: under IAS/IFRS, start-up and expansion costs are deducted from shareholders' equity on the transaction date, while under Italian GAAP they may be

capitalised. This different accounting treatment determined an improvement in the pre-tax result for the third quarter of 2004 (5 thousand euros) and for the first nine months of 2004 (17 thousand euros) as a result of lower amortisation, gross of a negative tax effect of 1 thousand euros for the first nine months of 2004;

3. Reversal of research costs: under IAS/IFRS, research costs are charged to the income statement as incurred, while under Italian GAAP they may be capitalised and recognised as assets. This different treatment has determined an improvement in the pre-tax result for the third quarter of 2004 (18 thousand euros) and for the first nine months of 2004 (56 thousand euros) as a result of lower amortisation, gross of a negative tax effect of 2 thousand euros for the first nine months of 2004;

4. Reversal of trademark costs: under IAS/IFRS, the cost of registering internally developed trademarks is charged to the income statement as incurred, while under Italian GAAP this cost may be capitalised and recorded as assets. This different treatment has determined, for the third quarter of 2004 and for the first nine months of 2004, a decrease in the pre-tax result for the third quarter (9 thousand euros) and for the first nine months of 2004 (19 thousand euros), gross of a positive tax effect of 7 thousand euros and 28 thousand euros, respectively, due to reversal of the trademark costs incurred in 2004;

5. 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 Civil Code in force at the end of the year. Under IAS/IFRS, such benefits are likened to a defined-benefit plan and as such must be subject to actuarial valuation (mortality, predictable salary changes, etc.) to reflect the present value of the benefit payable upon termination that has accrued to employees at the balance sheet date. This different treatment has determined an improvement in the pre-tax result for the third quarter of 2004 (1 thousand euros) and a decrease in the pre-tax result for the first nine months of 2004 (3 thousand euros), gross of a positive tax effect of 1 thousand euros for the first nine months of 2004.

CONSOLIDATED INCOME STATEMENTS FOR THE THIRD QUARTER OF 2004 AND THE FIRST NINE MONTHS OF 2004 UNDER IAS/IFRS

In addition to reconciliations of the net results for the third quarter and the first nine months of 2004, together with notes to the adjustments to the amounts determined under Italian GAAP, the income statements for the same periods of 2004 are presented below. These tables show for each item:

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

CONSOLIDATED INCOME STATEMENT FOR THE THIRD QUARTER OF 2004 (*)

(€000)	Italian GAAP	Effects of transition to IAS/IFRS			IAS/IFRS
			Reclassifications	Adjustments	
Revenues	5,185		-	-	5,185
Other income	(14)	d)	6	-	(8)
Total	**5,171**		**6**	**-**	**5,177**
Cost of materials and external services	(2,954)	a)	-	(19)	(2,973)
Change in inventories	(8)		-	-	(8)
Staff costs	(2,068)	b)	6	1	(2,061)
Amortisation and depreciation	(727)	c)	-	470	(257)
Impairment charges/reversal of impairment charges	-		-	-	-
Other costs	(89)	d)	(42)	-	(131)
Finance income	113		-	-	113
Finance costs	(14)	b)	(6)	-	(20)
Extrardinary income/(expense)	(36)	d)	36	-	-
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**(612)**		**-**	**452**	**(160)**
Taxation	-	e)	-	(314)	(314)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(612)**		**-**	**137**	**(474)**
Net profit/(loss) from assets held for sale/discontinued operations	-		-	-	-
NET PROFIT/(LOSS) BEFORE MINORITY INTEREST	**(612)**		**-**	**137**	**(474)**
Net profit/(loss) attributable to minority interest	-		-	-	-
NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY	**(612)**		**-**	**137**	**(474)**

(*) The income statement was prepared under IAS/IFRS in force to date and is unaudited.

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD BETWEEN JANUARY AND SEPTEMBER 2004 (*)

(€000)	Italian GAAP	Effects of transition to IAS/IFRS			IAS/IFRS
			Reclassifications	Adjustments	
Revenues	14,096		-	-	14,096
Other income	1,462	d)	59	-	1,521
Total	**15,558**		**59**	**-**	**15,617**
Cost of materials and external services	(7,681)	a)	-	(77)	(7,758)
Change in inventories	5		-	-	5
Staff costs	(6,425)	b)	19	(3)	(6,409)
Amortisation and depreciation	(2,332)	c)	-	1,407	(925)
Impairment charges/reversal of impairment charges	(83)		-	-	(83)
Other costs	(225)	d)	(86)		(311)
Finance income	453		-	-	453
Finance costs	(92)	b)	(19)	-	(111)
Extrardinary income/(expense)	(27)	d)	27	-	-
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**(849)**		**-**	**1,327**	**478**
Taxation	-	e)	-	(680)	(680)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(849)**		**-**	**647**	**(202)**
Net profit/(loss) from assets held for sale/discontinued operations	-		-	-	-
NET PROFIT/(LOSS) BEFORE MINORITY INTEREST	**(849)**		**-**	**647**	**(202)**
Net profit/(loss) attributable to minority interest	-		-	-	-
NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY	**(849)**		**-**	**647**	**(202)**

(*) The income statement was prepared under IAS/IFRS in force to date and is unaudited.

NOTES TO THE IAS/IFRS ADJUSTMENTS AND RECLASSIFICATIONS IN THE INCOME STATEMENTS FOR THE THIRD QUARTER OF 2004 AND THE FIRST NINE MONTHS OF 2004

The following notes discuss the adjustments and reclassifications as well as references to the adjustments included in the reconciliations of the net results shown above (pages 3 and 4 of this annex).

a) *Cost of materials and external services:* this adjustment (a reduction of 19 thousand euros in the third quarter of 2004 and 77 thousand euros in the first nine months of 2004) relates to recognition in the income statement of the costs incurred in 2004 for the registration of trademarks developed internally by the Parent Company. Under Italian GAAP these costs were capitalised as long-term assets (see adjustment 4).
b) *Staff costs*: this reclassification (6 thousand euros in the third quarter of 2004 and 19 thousand euros in the first nine months of 2004) concerned the imputed interest expense determined by actuarial calculations related to staff termination benefits, which, under IAS/IFRS, should be classified under other finance costs. The adjustment (an increase of 1 thousand euros in the third quarter of 2004 and a reduction of 3 thousand euros in the first nine months of 2004) reflects lower and higher provisions, respectively, for staff termination benefits on the basis of the actuarial calculations performed in accordance with IAS 19 (see adjustment 5).
c) *Amortisation and depreciation:* this adjustment (an increase of 470 thousand euros in the third quarter of 2004 and 1,407 thousand euros in the first nine months of 2004) concerns:
    - reversal of the amortisation of goodwill arising from consolidation, totalling 438 thousand euros in the third quarter of 2004 and 1,315 thousand euros in the first nine months of 2004 (see adjustment 1);
    - reversal of the amortisation of start-up and expansion costs, totalling 5 thousand euros in the third quarter of 2004 and 17 thousand euros in the first nine months of 2004 (see adjustment 2);
    - reversal of the amortisation of research costs, totalling 18 thousand euros in the third quarter of 2004 and 56 thousand euros in the first nine months of 2004 (see adjustment 3);
    - reversal of the amortisation of trademark costs, totalling 9 thousand euros in the third quarter of 2004 and 19 thousand euros in the first nine months of 2004 (see adjustment 4).
d) *Extraordinary income/(expense)*: this reclassification (36 thousand euros in the third quarter of 2004 and 27 thousand euros in the first nine months of 2004) reflects the different accounting treatment of extraordinary items under IAS/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.
e) *Taxation*: this adjustment (a reduction of 314 in the third quarter of 2004 and 680 thousand euros in the first nine months of 2004) relates to:
    - the third quarter of 2004: to the income taxes for the period and the reversal of deferred tax assets, resulting in a total decrease of 316 thousand euros, which was not recognised under Italian GAAP; to the positive tax effects deriving from recognition of the cost of registering trademarks in the income statement, totalling 7 thousand euros; to the negative tax effects related to reversal of the amortisation of start-up, expansion, research and trademark costs, resulting in a decrease of 5 thousand euros;
    - the first nine months of 2004: to the income taxes for the period and the reversal of deferred tax assets, resulting in a total decrease of 699 thousand euros, which was not recognised under Italian GAAP; to the positive tax effects deriving from recognition of the cost of registering trademarks in the income statement, totalling 28 thousand euros; to the negative tax effects related to reversal of the amortisation of start-up, expansion, research and trademark costs, resulting in a decrease of 9 thousand euros.