QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2006

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT
for the three months ended 31 March 2006

(€000)	Note	Q1 2006	Q1 2005
Revenues	1	7,566	5,264
Other income		5	183
Total revenue		**7,571**	**5,447**
Movement in work in progress, semi-finished and finished goods		2	4
Raw materials	2	(218)	(337)
External services	3	(5,763)	(2,335)
Rentals and leases	4	(346)	(363)
Staff costs	5	(2,989)	(2,398)
Amortisation and depreciation	6	(192)	(229)
Impairment charges/reversal of impairment charges on non-current assets		(1)	-
Other costs	7	(253)	(197)
Finance income	8	222	232
Finance costs	8	(282)	(48)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		**(2,249)**	**(224)**
Taxation	9	(408)	(230)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS		**(2,657)**	**(454)**
Net profit/(loss) from discontinued operations		-	-
NET PROFIT/(LOSS) BEFORE MINORITY INTERESTS		**(2,657)**	**(454)**
Net profit/(loss) attributable to minority interests		-	-
NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY		**(2,657)**	**(454)**
Earnings per share	10	(0.68)	(0.12)
Diluted earnings per share	10	(0.68)	(0.12)

ANALYSIS OF CONSOLIDATED NET FUNDS AT 31 MARCH 2006

(€000)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BASIS OF PRESENTATION

The Acotel Group's Quarterly Report for the three months ended 31 March 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 same period 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 31 March 2005 are provided in the Annex to this Quarterly Report.

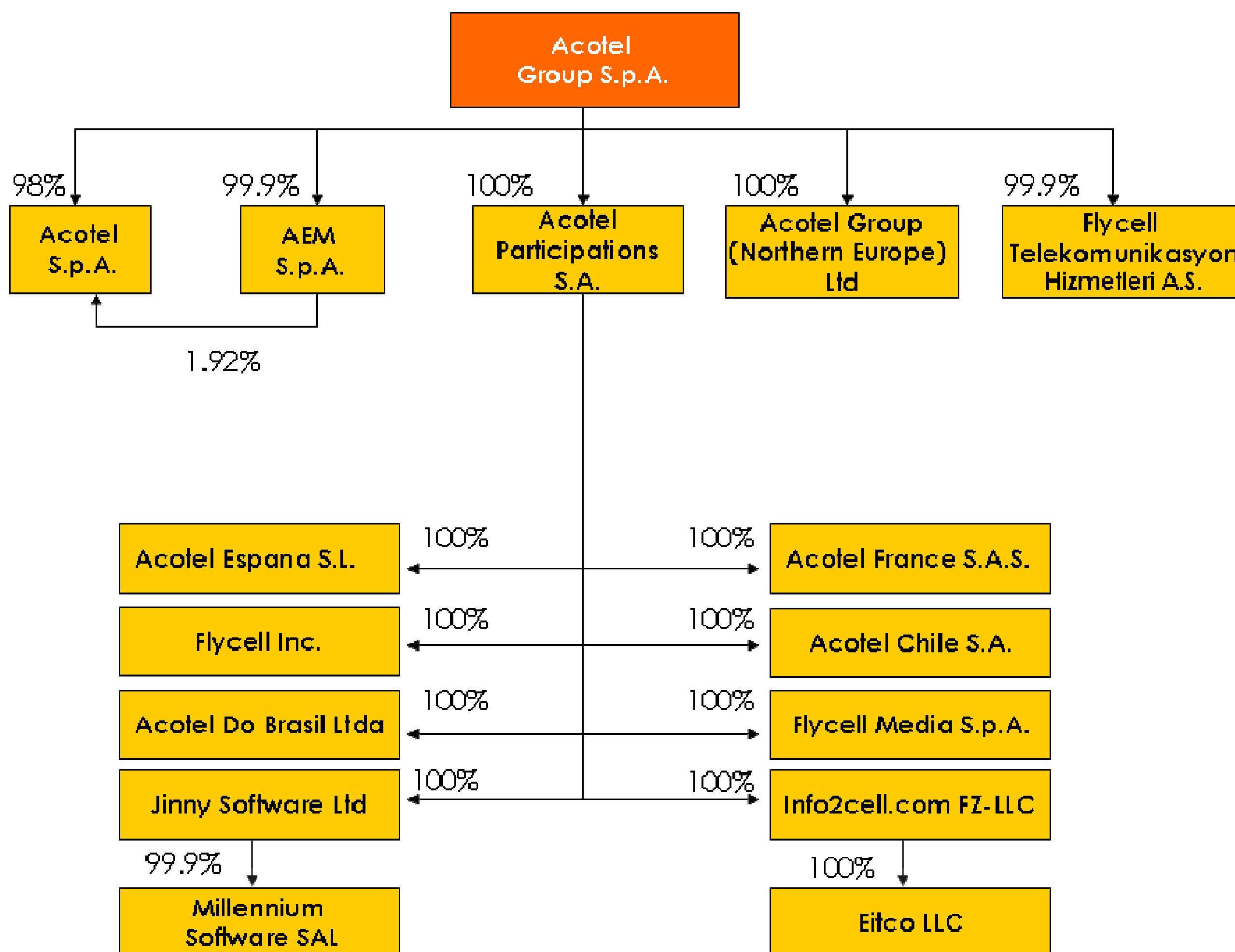
The accounting standards applied are consistent with those adopted for preparation of the Acotel Group's consolidated financial statements for the year ended 31 December 2005.

The consolidated financial statements for the three months ended 31 March 2006 have been prepared on the basis of the underlying accounting records at that date, as adjusted in accordance with the matching principle.

The preparation of interim financial statements may require management 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, and that relate exclusively to the last month of the period under review.

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 31 March 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

(1) The date of the company's entry into the Group coincides with its incorporation.
(2) Prior to such date the Group held 50% of the company's share capital, posted to investments in associates.
(3) Prior to such date the Group held 33% of the company's share capital, posted to investments in associates.
(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.

Net debt at 31 March 2006 is compared with the corresponding amount 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)	Q1 2006	%	Q1 2005	%
SERVICES	6,795	89.8%	4,054	77.0%
DESIGN OF ICT EQUIPMENT	528	7.0%	960	18.3%
SECURITY SYSTEMS DESIGN	243	3.2%	250	4.7%
	7,566	**100%**	**5,264**	**100%**

SERVICES

The Services business includes the activities carried out for telephone and commercial companies, as well 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)	Q1 2006	Q1 2005	Increase/(Decrease)
Network Operator Services	4,091	3,679	412
B2C services	2,058	94	1,964
Media services	448	171	277
Corporate services	198	110	88
Total	**6,795**	**4,054**	**2,741**

Revenues from value added services (VAS) provided to network operators, amounting to 4,091 thousand euros in the first quarter of 2006, are up 412 thousand euros (11%) on the same period of the previous year.

They primarily include revenues from services rendered by *Acotel S.p.A.* to *Telecom Italia Mobile*, which amount to 2,679 thousand euros in the first 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 814 thousand euros, revenues for services rendered by *Info2cell* to the main mobile telephony operators in the Middle East, amounting to 526 thousand euros, and revenues generated by *Acotel Group (Northern Europe)* on services provided to European operators, totalling 59 thousand euros. The increase compared with the same period of the previous year is principally due to the performance of overseas subsidiaries.

The *B2C* segment, relating to the direct sale of products and applications to end customers, has begun to make a significant contribution in 2006. Revenues during the first quarter of the year include 1,946 thousand euros generated by the US subsidiary, *Flycell Inc.* which, having completed its start-up phase, has begun to see substantial traffic volumes. The remaining amount primarily regards the subsidiary, *Flycell Telekomünicasyon Hizmetleri A.Ş.*, which has embarked on the sale of its services in Turkey during the current year.

Revenues from services provided to media companies, amounting to 448 thousand euros, were mainly generated in the Middle East (254 thousand euros) by the subsidiary, *Info2cell*, and in Italy (167 thousand euros) by *Acotel S.p.A.* via services connected to certain programmes run by the television broadcasters *MTV, RAI* and *LA7.* Further revenues were earned on services provided to the Brazilian broadcaster, *Radio Globo*.

Revenues from corporate services amount to 198 thousand euros and regard the Italian operations of *Acotel S.p.A.*, which primarily serves banks (95 thousand euros), and *AEM S.p.A.* on relations with *Acea S.p.A*. (70 thousand euros). The remaining balance regards the revenues earned by *Info2cell* under its agreement with *Pepsi-Cola.*

DESIGN OF ICT EQUIPMENT

Revenues from ICT equipment in the first quarter of 2006 amount to 528 thousand euros, compared with 960 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 reduction with respect to the same period of the previous year is essentially due to the particular nature of *Jinny Software*'s business, which it is difficult to evaluate on a quarterly basis in that the results are tied to the length of time needed to fulfil the orders acquired, and thus to the accounting policies used, which require revenues to be recognised on delivery and acceptance of the goods by the customer.

SECURITY SYSTEMS DESIGN

Revenues from the design of electronic security systems amount to 243 thousand euros, and are substantially in line with the same period of 2005. Such 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)	Q1 2006	%	Q1 2005	%
ITALY	3,287	43.5%	3,012	57.2%
NORTH AMERICA	1,946	25.7%	-	-
MIDDLE EAST	1,135	15.0%	732	13.9%
LATIN AMERICA	924	12.2%	593	11.3%
OTHER EUROPEAN COUNTRIES	173	2.3%	381	7.2%
AFRICA	101	1.3%	225	4.3%
ASIA	-	-	321	6.1%
	7,566	**100%**	**5,264**	**100%**

The breakdown of revenue in 2005 by geographical segment confirms the Group's commitment to the process of internationalising its revenue sources. The proportion of the Group's total revenue generated overseas has risen from 42.8% in the first quarter of 2005 to 56.5% in the first three months of the current year, despite an increase in turnover in Italy. This reflects the importance of the revenues generated in the United States and the improved results reported by *Info2cell* and *Acotel do Brasil.*

Note 2 – Raw materials

The cost of raw materials refers principally to the purchase of materials for the construction of telecommunications equipment by *Jinny Software* (200 thousand euros).

Note 3 – External services

The cost of external services totals during the first quarter of 2006 amounts to 5,763 thousand euros, compared with 2,335 thousand euros in the same period of 2005. The 147% increase is essentially due to the cost of advertising and promotions linked to the launch of B2C activities, which amounted to 3,317 thousand euros in the period, representing 57.5% of the total cost of external services.
The next most significant items regard the cost of acquiring content from external content providers, totalling 941 thousand euros, the cost of purchasing SMS packages from mobile operators, amounting to 312 thousand euros.
Marketing, administrative, legal and technical consulting fees incurred by Group companies total 286 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 156 thousand euros, remuneration paid to directors and statutory auditors (134 thousand euros), telephone expenses (95 thousand euros), and the cost of connecting to terrestrial and satellite transmission networks for the provision of value added services (83 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

Rentals and leases mainly include rentals on offices occupied by Group companies.

Note 5 - Staff costs

Staff costs include:

(€000)	Q1 2006	Q1 2005	Increase/(Decrease)
Salaries and wages	2,205	1,723	482
Social security contributions	437	408	29
Staff termination benefits	67	102	(35)
Finance costs	(10)	(8)	(2)
Other costs	290	173	117
Total	**2,989**	**2,398**	**591**

The following table shows the average number of staff by category during the first quarter of 2006 and 2005:

	Average Q1 2006	Average Q1 2005
Managers	18	17
Supervisors	31	28
White- and blue-collar staff	214	176
Total	**263**	**221**

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

	At 31 Mar 2006	At 31 Mar 2005
Italy	97	97
Ireland	25	21
Lebanon	34	34
France	2	4
Brazil	16	12
United Arab Emirates	17	16
Jordan	53	41
USA	23	5
Total	**267**	**230**

The increase in staff costs is essentially a result of the expansion of the Group's overseas subsidiaries, above all the large-scale rollout of *Flycell Inc.*'s services in the USA.

Note 6 – Amortisation and depreciation

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

(€000)	Q1 2006	Q1 2005	Increase/(Decrease)
Amortisation of non-current intangible assets	66	71	(5)
Depreciation of property, plant and equipment	126	158	(32)
Total	**192**	**229**	**(37)**

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 253 thousand euros for the first quarter of 2006 and include 120 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 60 thousand euros break down as follows:

(€000)	Q1 2006	Q1 2005	Increase/(Decrease)
Interest income from investments	199	141	58
Interest income on bank deposits	11	12	(1)
Foreign exchange gains	9	52	(43)
Other interest income	3	27	(24)
Total finance income	**222**	**232**	**(10)**
Interest expense and bank charges	(44)	(35)	(9)
Foreign exchange losses	(228)	(5)	(223)
Other interest expense	(10)	(8)	(2)
Total finance costs	**(282)**	**(48)**	**(234)**
Net finance income/(costs)	**(60)**	**184**	**(244)**

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

Net foreign exchange losses reflect the 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 408 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 first quarter of 2006.

Note 10 – Earnings per share

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

(€000)	Q1 2006	Q1 2005
Net profit/(loss) (€000)	**(2,657)**	**(454)**
Number of shares (000)		
Shares in circulation at the start of the period	3,916 *	3,961 *
Weighted average of treasury shares acquired/sold in the period	-	62
Weighted average of ordinary shares in circulation	**3,916**	**3,899**
Basic and diluted earnings per share **	**(0.68)**	**(0.12)**

* : net of treasury shares held at the same date.

**: basic earnings per share for the first quarters of 2006 and 2005 coincides with diluted earnings per share as the conditions provided for by IAS 33 do not exist.

NET FUNDS

Net funds at 31 March 2006 amount to 28,694 thousand euros, having declined from the 30,930 thousand euros of 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.

SUBSEQUENT EVENTS

There were no material events in the period between 1 April 2006 and the date of preparation of this Report.

DIRECTORS' FINANCIAL AND OPERATING REVIEW

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(€000)	Q1 2006	Q1 2005	Increase/(Decrease)	% inc./(dec.)
Revenues	7.566	5.264	2.302	43,73%
Other income	5	183	(178)	(97,27%)
Total revenue	**7.571**	**5.447**	**2.124**	**38,99%**
Gross operating profit	**(1.996)**	**(179)**	**(1.817)**	**(1.015,08%)**
	-26,36%	*-3,29%*		
Operating profit/(loss)	**(2.189)**	**(408)**	**(1.781)**	**(436,52%)**
	-28,91%	*-7,49%*		
Net finance income/(costs)	(60)	184	(244)	(132,61%)
PROFIT/(LOSS) BEFORE TAX	**(2.249)**	**(224)**	**(2.025)**	**(904,02%)**
	-29,71%	*-4,11%*		
NET PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(2.657)**	**(454)**	**(2.203)**	**(485,24%)**
	-35,09%	*-8,33%*		
NET PROFIT/(LOSS) ATTRIBUTABLE TO PARENT COMPANY	**(2.657)**	**(454)**	**(2.203)**	**(485,24%)**
	-35,09%	*-8,33%*		
Earnings per share	(0,68)	(0,12)	(0,55)	(482,81%)
Diluted earnings per share	(0,68)	(0,12)	(0,55)	(482,81%)

Compared with the same period of the previous year, the Acotel Group's performance in the first quarter of 2006 was marked by revenue growth, on the one hand, and a decline in margins, on the other.

Both trends are, in any event, largely linked to the expanded operations of the subsidiary, Flycell Inc. and the particular nature of the company's business.
As described in greater detail in the Directors' Report on Group Operations accompanying the consolidated financial statements for the year ended 31 December 2005, to which reference should be made, this subsidiary operates a B2C business focusing on the highly promising US infotainment market. During the first quarter, the company earned revenues of 1,946 thousand euros, although this figure was more than offset by brand promotion and customer acquisition costs of 3,258 thousand euros.

It should be noted, however, that in order take advantage of *Flycell Inc.*'s services, customers must sign up for a monthly subscription, 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 overall increase in revenue is also due to *Acotel do Brasil*, which supplies services to the Brazilian operators, *TIM Celular*, *TIM Sul, Maxitel* and *TIM Nordeste Telecomunicaçoes,* and *Info2cell*, as a result of both its privileged relations with over 15 leading Middle Eastern mobile operators and the services provided to media and consumer goods firms.

The Istanbul-based company, *Flycell Telekomunikasion Hizmetleri A.S.* has completed the commercial launch of its services in the Turkish market, carrying out a direct marketing campaign via SMS on behalf of the operator, AVEA, generating over 60,000 ringtone downloads in January alone. During the quarter, the company completed testing of the interconnection with the mobile operator, Telsim, which took place in the second half of April. Thanks to this interconnection the company has doubled its potential customer base to approximately 10 million, having previously been limited to customers of AVEA.

With regard to product sales, as mentioned in Note 1, the subsidiary, *Jinny Software Ltd.*, earned revenues of 528 thousand euros in the quarter, marking a reduction compared with the same period of 2005. Meanwhile, the subsidiary acquired orders worth over 1.8 million euros over the period, confirming the market success of its products.
The Irish subsidiary boosted its commercial organisation at the start of the year, recruiting new staff to work in research and development and pre- and post-sales support.

By opening a new office in Kuala Lumpur, *Jinny Software* has established a direct presence in Asia, allowing it to better manage sales of its network equipment to countries in this area. The new office has enabled the company to acquire three contracts for the installation of an SMS-C, an MMS-C and a Real Time Charging Gateway (a recently developed platform that interacts between the operator's messaging platform and its billing system for prepaid contracts).
Likewise, the company has entered into an agency agreement with a US company with a large number of contacts in Latin America.

As a result of the above, the proportion of revenues generated in Italy has fallen from 57.2% in the first three months of 2005 to 43.5% in the same period of 2006, whilst revenues from overseas sales have risen from 42.8% of the total to 56.5%. Revenues earned in the Middle East and Latin America are up compared with the first quarter of 2005, whilst US revenues, which totalled zero in the first three months of 2005, account for 25.7% of total revenue for the first quarter of 2006.

The Group reports a gross operating loss of 1,996 thousand euros, which is significantly higher than the loss of 179 thousand euros reported for the first quarter of 2005.
In addition to the previously mentioned advertising and promotional costs, the result also reflects the increase in staff costs. It should be noted that the overall rise in the Group's headcount, which has grown from 230 at 31 March 2005 to 267 at the balance sheet date, is entirely due to recruitment by overseas subsidiaries, who have been better able to exploit the growth opportunities offered by their respective markets, above all in the case of *Flycell Inc*.

After net finance costs of 60 thousand euros and estimated taxation for the period, amounting to 408 thousand euros, the net loss for the first quarter of 2006 amounts to 2,657 thousand euros, compared with a net loss of 454 thousand euros for the same period of the previous year.

OUTLOOK

For details on the Group's outlook reference should be made to the Directors' Report on Operations for the year ended 31 December 2005. As reported in this document, the Group will continue to develop its *B2C* business, alongside its traditional *B2B* activities aimed primarily at mobile operators and media companies, mainly through its subsidiary, *Flycell Inc.*, which in the coming months will expand its operations to include other English-speaking countries.

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 quarter 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 QUARTER 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 Q1 2005 (*)
TOTAL AMOUNT UNDER ITALIAN GAAP	(584)
Less: minority interests	-
SHARE ATTRIBUTABLE TO THE PARENT COMPANY UNDER ITALIAN GAAP	**(584)**
Taxation for the period	(238)
ADJUSTMENTS:	
1. reversal of gains/losses on trading in treasury shares	(86)
2. reversal of amortisation of goodwill arising from consolidation	439
3. reversal of start-up and expansion costs	4
4. reversal of research and development costs	18
5. reversal of trademark costs	(17)
6. adjustment to staff termination benefits	2
Tax effects on reconciled items	8
Minority interests in reconciled items	-
SHARE ATTRIBUTABLE TO THE PARENT COMPANY UNDER IFRS	**(454)**

(*) Unaudited figures

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 quarter of 2005 (238 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 quarter 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 439 thousand euros in the net loss for the first quarter of 2005, entirely as a result of the elimination of goodwill;

3. reversal of start-up and expansion costs: the different accounting treatment of start-up and expansion costs under IFRS has resulted in a reduction of 4 thousand euros in the net loss for the first quarter 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 18 thousand euros in the net loss for the first quarter 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 19 thousand euros in the pre-tax loss for the first quarter of 2005, after amortisation of 2 thousand euros and before the related positive tax effect, amounting to 7 thousand euros;

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 2 thousand euros in the pre-tax loss for the first quarter of 2005, before the related negative tax effect of 1 thousand euros.

CONSOLIDATED INCOME STATEMENT FOR THE FIRST QUARTER 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 FIRST QUARTER OF 2005 (*)

(€000)	Italian GAAP	Effects of IFRS adoption			IFRS
			Reclassi-fications	Ajust-ments	
Revenues	5,251	e)	13	-	5,264
Other income	183		-	-	183
Total revenue	**5,434**		**13**	**-**	**5,447**
Change in inventories	4		-	-	4
Cost of materials	(337)		-	-	(337)
External services	(2,316)	a)	-	(19)	(2,335)
Leases and rentals	(363)		-	-	(363)
Staff costs	(2,408)	b)	8	2	(2,398)
Amortisation and depreciation	(692)	c)	-	463	(229)
Other costs	(161)	e)	(36)	-	(197)
Finance income	318	d)	-	(86)	232
Finance costs	(40)	b)	(8)	-	(48)
Extrardinary income/(expense)	(23)	e)	23	-	-
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS	**(584)**		**-**	**360**	**(224)**
Taxation	-	f)	-	(230)	(230)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS	**(584)**		**-**	**130**	**(454)**
Net profit/(loss) from discontinued operations	-		-	-	-
NET PROFIT/(LOSS) BEFORE MINORITY INTERESTS	**(584)**		**-**	**130**	**(454)**
Net profit/(loss) attributable to minority interests	-		-	-	-
NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY	**(584)**		**-**	**130**	**(454)**

(*) Unaudited figures

NOTES TO THE IFRS ADJUSTMENTS AND RECLASSIFICATIONS IN THE INCOME STATEMENT FOR THE FIRST QUARTER 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 (pages 1 and 2 of this annex).

a) *External services:* this adjustment (-19 thousand euros) relates to recognition in the income statement of the costs incurred in the first quarter 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).
b) *Staff costs*: the reclassification (+8 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 (+2 thousand euros) reflects lower provisions for staff termination benefits on the basis of the actuarial calculations performed under IAS 19 (see adjustment 6).
c) *Amortisation and depreciation:* this adjustment (+463 thousand euros) regards:
   - reversal of the amortisation of goodwill arising from consolidation, totalling 439 thousand euros (see adjustment 2);
   - reversal of the amortisation of start-up and expansion costs, totalling 4 thousand euros (see adjustments 3);
   - reversal of the amortisation of research costs, totalling 18 thousand euros (see adjustment 4);
   - reversal of the amortisation of trademark costs, totalling 2 thousand euros (see adjustment 5).
d) *Finance income*: this adjustment (-86 thousand euros) reflects the reversal of gains on the sale of treasury shares during the first quarter of 2005, which under IFRS should be recognised as an increase in equity reserves (see adjustment 1).
e) *Extraordinary income/(expense)*: this reclassification (+23 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.
f) *Taxation*: this adjustment (-230 thousand euros) relates to:
   - income taxes of 238 thousand euros that was not recognised under Italian GAAP;
   - the positive tax effects deriving from recognition of the cost of registering trademarks in the income statement, totalling 7 thousand euros;
   - the negative tax effects related to reversal of the amortisation of trademark costs, totalling 1 thousand euros.