

TELEUNIT S.p.A.

FINANCIAL RESULTS

For the year ended 31 December 2005

Financial Results for the year ended 31st December 2005

Teleunit S.p.A, the provider of fixed line telephony, wireless broadband, wholesale services, premium access numbers, and mobile content throughout Italy, today announces its financial results for the year ended 31 December 2005.

Highlights:

- Revenue increased 41% to €85.4 million (2004: €60.8 million)
- Gross profit increased 34% to €18.2 million (2004: €13.6 million)
- Profit Before Tax of €5.2 million (2004: €5.6 million)
- Shareholder's Equity increased 15% to €27.1 million (2004: €24.0 million)
- 15% average compound month-on-month growth in Mobile Content Services active subscriber base
- Acquisition of 50% stake in Pro-Advertising
- Implementation of new network infrastructure
- Strengthening of management structure
- Development and introduction of Voice over Internet Protocol ("VoIP") products

Commenting on the financial results, Francesco Cimica, Chief Executive Officer of Teleunit S.p.A said:

"In 2005 Teleunit progressed from being a regionally-focussed company to one with Italy-wide and international operations. We have concentrated this year on upgrading our network infrastructure and internal corporate processes, with the aim of better managing the growth in our customer base. We have laid the groundwork for future expansion, we are adding sales and marketing support across our business lines and we are confident that these measures will contribute significantly to the top line going forward. The market continues to grow in our favour and we are in a strong position to grow with it."

Chairman's Statement:

On behalf of the Board of Directors, I present the annual Report and Financial Statements of the Company for the fiscal year ended 31 December 2005.

Operating performance:

In 2005 Teleunit has strengthened its management and organisation, implemented a new network infrastructure, improved operational procedures, introduced new Voice over Internet Protocol ("VoIP") products to market and focused on business lines such as Mobile Content Services and Fixed Line. These business lines will spearhead revenue growth beyond 2006-07. The aforementioned actions have been essential to Teleunit's future success, and 2006 will see an increased emphasis on sales and marketing. The Board is confident that the upcoming transition phase (and lower forecasts projected for it) due to the increased focus on high-growth business lines will build a more solid foundation for future growth, and put the Company in a stronger position to exploit new market opportunities.

Profit before tax in 2005 was €5.2 million down from €5.6 million in 2004, on turnover up 41% from €60.8 million to €85.4 million. The revenue increase of €24.6 million is attributable mainly to the Premium Access division, with important contributions made also by the WLL and Mobile Content Services divisions. The Chief Executive's review contains information on the performance of the individual business lines.

The Company's balance sheet was strengthened during the year. Total Shareholder's Equity at year-end stood at €27.1 million compared to €24.1 million at the end of the previous period.

The Company's cash position is also stronger and at year-end 2005 Net cash and cash equivalents stood at €12.1 million, up from €3.1 million in 2004.

Employees:

The number of employees now stands at over 80 compared with 68 at the end of 2004. On behalf of the Board, I would like to take this opportunity once again to thank all employees for the dedication and hard work they have demonstrated over the past year. We have a very strong team which is instrumental to the continuing success of Teleunit.

Outlook:

In 2005 the Mobile Content Services division performed very well and we are confident of the growth prospects projected in this segment. Following extensive product development throughout 2005 we now have a comprehensive portfolio of fixed line VoIP products catering to large corporate clients, SME's and SoHo and residential users. We expect to benefit greatly from this full line of products in years to come. The beginning of 2006 has already pointed to a strong growth trend in the fixed line division. We have positioned ourselves extremely well in the Italian telecoms sector and through exciting new agreements across our business lines we are confident that the Company is prepared to exploit the growth prospects forecast in our target markets.

David Lee

Chairman

Chief Executive Officer's review:

Introduction:

In 2005 Teleunit has continued to achieve growth in turnover and gross profit and has strengthened its position as a key player in the Italian telecoms market. This year has marked the beginning of a transformation for Teleunit in which new strategies were put into place to reflect market conditions and new network infrastructures have been implemented. Despite the temporary impact of these measures on our fixed and wholesale business lines, the overall Company results have continued to meet expectations.

Our growth has been recognized by a number of national performance awards in 2005, testament to our competitive ability in the Italian telecoms market. We have been expanding our employee base and have hired experienced personnel to strengthen our organisational structure. New opportunities are being reviewed on a constant basis and we are confident that the Company has exciting prospects going forward.

Operations review:

Premium Access:

The Premium Access division has been operational since 2002, and supplies premium access numbers (899 prefix) to content providers wishing to sell their voice or data content via telephone and internet.

Divisional highlights:

- Revenues up 63% to €69.2 million (FY2004: €42.5 million)
- Gross profit of €13.4 million on 19% margins (FY2004: €9.2 million/22%)
- 130 clients (large service centres -100 at year end 2004)
- Starline investment continuing to perform to expectations
- Digitalk platform implemented to increase number of services we can provide to service centres

These increases in revenues, gross profit and number of clients can be attributed partly to strong customer loyalty as a result of the higher levels of traffic we have helped them achieve. We have also acquired a number of new key clients through direct sales initiatives and through organic growth. Our acquisition of a 30% stake in Starline in June 2004 has also, due to the contractual obligation of the other party to route at least 85% of its traffic via Teleunit premium access numbers through to the end of 2007, continued to benefit the division's top line.

We have upgraded our network to the Digitalk platform which has increased the reliability, functionality and efficacy of our offering, resulting in less network downtime and

better quality of service to our clients (the service centres). Through the automation of a number of administrative tasks we have also facilitated the prompt processing of payables to our clients and collection of receivables from Telecom Italia. The new network infrastructure will provide streaming statistics on traffic generated by our clients and on the technical operability of the platform – this will be instrumental in aiding management decision-making processes. Moreover, a new division marketing manager will be in charge of coordinating future sales staff when they come on board, and of providing a larger range of services to our customer base through our new platform.

The Company has positioned itself as one of the market leaders in this sector with an estimated 10% market share. Nevertheless the market will see some pressure on margins owing to increased volumes of voice content delivered over mobile networks. Voice content to mobiles generates lower margins as mobile operators demand a greater revenue-share than the fixed-line operator (Telecom Italia). However we expect this trend to work in our favour by allowing us to further diversify the portfolio of products and services that can be delivered through client service centres to end-users. Moreover, voice service centers tend to be smaller than fixed line data service centers, so our absorption of a larger number of smaller clients will have the effect of reducing overall risk. On the whole the Italian market is growing, demand for premium access numbers is increasing, and we look positively on our ability to deliver results in this business line.

Fixed Line:

The Fixed Line division has defined Teleunit since its inception and been the basis for the Company's national operator license obtained in 1997. The most traditional service is Carrier Pre Selection ("CPS") with calls routed on Telecom Italia's network through a dialling prefix. The most recent offerings consist of bundled voice and data solutions with ADSL being the carrier for Voice over Internet Protocol ("VoIP"). Teleunit's Unilibera and GoVoIP offer customers a single telecoms solution and an efficient and cost-effective alternative to Telecom Italia.

Divisional Highlights:

- Revenues of €7.1 million (FY2004: €7.9 million)
- Gross profit of €2.4 million on margins of 34% (FY2004: €3.6 million/45%)
- Introduction of Unilibera and GoVoIP
- Network upgrade and procedural implementation to support increasing customer base
- Increase in the number of sales agencies

The Fixed Line business in 2005 underwent a transformation, with a network upgrade, new product development and a de-emphasis of existing products over legacy networks. Margins have reduced as a result of pricing pressure on CPS. Most of the Company's voice traffic is still generated by CPS customers and a reduction in call rates has

been a necessary move to maintain these clients for eventual upgrade to our VoIP products. The year 2005 has been the first in which Teleunit has operated in the VoIP arena. This has necessitated completely new systems concerning product provisioning and support, number portability, and product development (ADSL quality, development of fax and POS protocols).

In terms of product provisioning we have signed an agreement with a company operating on a national scale to outsource all product delivery, installation processes and first-level customer management. This move provides lower costs, a support network that can be supervised centrally and the ability to efficiently manage high volumes of new clients through specific Service Level Agreements (“SLA”). The outsourcing agreement will also allow our in-house staff to focus on core secondary level activities. The process of number portability, whereby new customers can transfer their existing number onto our network has, due to the unavoidable interaction with Telecom Italia, been an issue we have had to surmount. However we have outsourced this process and protected ourselves against delays via the aforementioned SLA’s. A new intranet facility linked to a database with detailed customer information will cut down on time-intensive customer management processes and will permit the efficient administration of the higher number of customers we expect to acquire in the future.

Unilibera, which was launched at the beginning of the year, and GoVoIP launched through agencies in the latter part of the year, have continued to grow the customer base and at year-end 2005 we had a total of 2,000 VoIP customers. Over the course of 2005 we grew the number of sales agencies reselling the products on a revenue-sharing basis. On average each sales agency realizes approximately 5 contracts per month yet we expect this number will grow as newly-trained agents become more familiar with the product. We are introducing new area managers who will be responsible for expanding the sales force and coordinating agent training.

The year 2005 has therefore been geared to product development and procedural implementation, the benefits of which will be seen in subsequent years. We have expanded our telecommunication product portfolio in order to cater to all areas of the market from SME’s to residential customers. Looking forward we are in a strong position to exploit the significant market growth that is forecast across these niches.

Mobile Content Services:

The Mobile Content Services business line was an initiative started in November 2004 to provide premium content to mobile users. With its assigned 5-digit number (48288) and through a partnership agreement with its dedicated UK content provider, Teleunit has developed its own range of services which it markets in Italy through a number of advertising channels under the brand name DINDO.

Divisional Highlights:

- Revenues of €3.6 million
- Gross profit of €2.4 million
- 260,000 active subscribers at year-end (FY2004: 24,000)
- Average subscription period up to 20 weeks in 2005 (2004: 12 weeks)
- Revenues in December alone were equivalent to revenues in the entire H1 2005 period (€750,000)

The global mobile content market is expected to reach €37 billion by 2010 from €20 billion today and Teleunit intends to participate aggressively in this market segment. Results have exceeded our expectations and the business continues to grow exponentially. Average Revenue Per User (“ARPU”) has increased due to lower instant churn rates and longer average subscription times. Instant churn rates relate to the number of users that unsubscribe from our service within the first week, and this number has decreased from 50% at December 2004 to 35% at December 2005. Weekly churn rates can be expressed as the average subscription period and this number has risen from 12 weeks to 20 weeks. This extension in average subscription time and the reduction in instant churn rates are indicative of a high degree of quality of service, increased customer satisfaction, and the improved marketing abilities of the 5-digit division’s employees.

In March 2005 we launched mobile content acquisition via fixed-line phones through an agreement with Telecom Italia, and in October we began offering the service on a subscription basis. From October to year-end 2005, this new service was successful in generating 9,000 new subscriptions. We intend to invest more on the marketing of this service in the coming year, as we are able to benefit from stronger margins provided by the fixed-line operator. Moreover the risk associated with revenue-collection from prepaid mobile phones is mitigated through fixed line invoicing as content can be consistently and reliably billed.

We expect division turnover to increase and as a result of higher levels of gross profit contribution, for Mobile Content Services to evolve into a core business line in the years to come. The correlation between targeted advertising campaigns and subsequent content demand has proven to be extremely strong. In particular, extensive advertising on television in H2 2005 has helped spur growth in the business line. Through the constant monitoring of customer subscription per advertising channel we are now able to assess which channels yield the highest rates of return on advertising spend. In 2005 several new content categories have come into effect that reflect predominant themes in the target culture, and these have been received very well. Our strategy remains firmly entrenched in promptly coming to market with new products and services that reflect consumer demand based on meticulous market research. Moreover the brand name ‘Dindo’ is gathering force and we expect this to

be a driver of organic growth in the years to come. The Mobile Content Services division is an extremely fast-growing and profitable business line for Teleunit to which the Company intends to give its full support going forward.

The success we have achieved in the mobile content market in Italy has encouraged us to expand internationally. In March 2006 we launched our service in Turkey in association with the leading mobile operator under the brand name 'Dito Mito 3055'. The growth prospects in this market are substantial and our accumulated experience and successful subscription-based business model will aid our strategic aim of becoming Turkey's leading supplier of mobile content.

Wireless Local Loop (WLL):

Teleunit has marked itself as an innovator in last mile connectivity solutions by implementing its proprietary WLL network in Umbria and Tuscany. This solution has permitted clients to free themselves from monthly line rental by communicating via a dedicated 24.5Ghz radio frequency, thus bypassing Telecom Italia's costly 'last mile' infrastructure. WLL's ability to handle high levels of traffic and bandwidth make it a premier solution for large corporate clients.

Divisional highlights:

- Revenues up 139% to €1.5 million (FY2004: €0.6 million)
- Gross profit of €1.2 million and gross margin of 78% (FY2004: €0.4 million/70%)
- Number of customers increased to 220 (FY2004: 120)
- Network expansion into Tuscany

In 2005 we expanded our network coverage to include Tuscany in addition to Umbria. Our ability to provide high-bandwidth corporate telecom solutions in this new market will assist in further driving division revenues in 2006. Customer numbers have been increasing and at year-end we had 220 corporate clients. Increased sales initiatives will see this number grow in the coming year. However, necessary strategic shifts have come into play with the advent of new and more evolved wireless communication solutions expected to be released in the near future. The business line has generated less revenues than we originally forecast when we came to market as we have limited the deployment of our WLL infrastructure to Umbria and Tuscany, in favour of awaiting these new technologies.

In view of this, we have been developing marketing strategies and moving ahead with the planning needed to ensure first-mover advantage the moment new wireless technologies are made available. WiMAX, with its 30km range and vast upload and download bandwidth capabilities promises to be the technology of the new era of telecoms. WiMAX frequencies are not yet ready for tender as this technology is currently being used by the military. However competitive pressure from other European countries already adopting the

technology and the development of more secure technologies looking forward should liberate this frequency in the near future. We are in constant contact with the responsible government agencies to ensure that when the time comes we are at the forefront of WiMAX provision.

Wholesale:

The wholesale offering is aimed at licensed operators, international carriers, Internet Service Providers (“ISPs”), phone shops, and resellers who own and operate their own telephony infrastructure. Services range from call collection to call termination on a national and international scale, with the latter service dedicated only to ‘switched’ clients. Clients can also request comprehensive call collection and termination packages via Teleunit’s proprietary access code.

Divisional highlights:

- Revenues of €4.0 million (FY2004: €9.5 million)
- Gross profit €0.7 million on 18% margins (FY2004: €2.4 million/26%)
- New division strategy and expansion of wholesale team

The most significant shift in strategy for 2005 has been the move away from selling prepaid cards. Increased competition in the market and higher costs of providing the cards through commercial resellers drove margins down at the beginning of 2005. Albeit it being a strong revenue-generator, our assessment was that the risk associated with the sale of calling cards was increasing and the decision to discontinue the initiative was taken. As evidenced in hindsight we are confident that we took the right decision even though the impact on division revenues has been significant.

In the second half of 2005, we have doubled the number of contracts with leading telecom operators and carriers from and to whom we buy and sell traffic. These new contracts are in their initial phases and as our reliability and quality of service becomes evidenced, we can expect traffic volumes to significantly increase. The division is also extremely well placed to benefit from the new network infrastructure we have implemented. Last-generation switches based on Lucent technologies coupled with the new Digitalk platform provide increased scalability, reliability and better management of network optimisation processes.

The wholesale strategy revolves around a quality over quantity paradigm consisting of the development of direct and exclusive interconnection agreements with top-class international operators. These agreements provide for the physical or VoIP interconnection of our switches with those of our partner, guaranteeing higher quality and more reliable service provision. We are currently in the process of expanding these agreements with other operators and remain confident that this strategy will increment our market share considerably going forward.

As stated in the 2005 interim results, the majority of traffic routed from Italy to Albania passes through the Teleunit network. International traffic is constantly on the up as more foreign workers wishing to contact friends and family abroad place international calls through either calling cards or phone shops. Since both calling card providers and phone shops are Teleunit clients, this trend should see the market working strongly in our favour. Furthermore, our quick penetration of this market in 2005 is indicative of the prospects for growth looking forward.

Financial review:

Performance:

Profit and Loss:

Turnover for the year increased to €85.4 million from €60.8 million for the year ended 31st December 2004. This growth has been primarily driven by Premium Access revenues up 63% from the previous period, and to a lesser yet increasingly significant extent by the Mobile Content Services division with revenues totalling €3.6 million. Strategy shifts in the Fixed Line and Wholesale divisions have resulted in a temporary interval in revenue growth yet the focus on these business lines in 2005 can be expected to boost revenues once again in 2006-2007 and beyond.

Gross profit for the year was €18.2 million up 34% from 2004, on a gross margin reduced by 1% to 21 percent.

EBITDA this year was €7.2 million (FY2004: €8.2 million), reflecting increases in infrastructure, personnel and marketing overheads. Personnel expenditure increased from €1.7 million to €2.9 million as a result of the hiring of a number of area managers and support staff. The marketing increase from €3.7 million in 2004 to €6.0 million in 2005 is mainly the result of increased advertising spend in the Mobile Content Services division (see note 4) and corporate brand building.

Financing cost for 2005 totalled €0.9 million and refers principally to interest cost for an amount of €0.8 million. Financing income for 2005 totalled €1.0 and refers mainly to a €793,000 gain on US\$ currency hedges (see note 6). Share of results of associates after tax amounts to €198,000 and relates to a 50% share of earnings from Pro Advertising for €288,000 minus a 30% share of the losses from Starline for €90,000.

Balance Sheet:

Assets:

Property plant and equipment increased by €6.1 million to €14.1 million principally reflecting capital expenditures on new Lucent network switches, the Digitalk platform for the VAS and wholesale divisions, ongoing WLL expansion in Tuscany, and on equipment needed for rolling out our ADSL VoIP offering.

Investments in subsidiaries and associates rose to €5.8 million in 2005 from €1.4 million in 2004, of which €4.0 million relates to the acquisition of Pro-Advertising. The remainder refers principally to the amount carried forward from the Starline acquisition in June 2004.

Trade receivables this year totalled €23.4 million up from €12.7 million last year. This represents an increase of €10.7 million. This is attributable mainly to payments pending from Telecom Italia for the Premium Access division (€6.8 million) and from mobile operators for the 5-digit division (€3.0 million). The remainder is from receivables due from Wholesale clients for €1.3 million and Fixed Line clients for €0.9 million (see note 14). Most of these receivables have since been collected.

Non-trade receivables have risen to €3.8 million from €3.7 million at year end 2004. This is attributable to a rise of €1.8 million in prepaid expenses offset by decreases in tax receivables, advance payments and cautionary deposits for a composite value of €1.7 million (see note 15).

At year end 2005 Cash and cash equivalents equalled €20.2 million as compared to €3.8 million at the end of the previous year. The rise in the cash balance can be attributed mainly to a €10.0 million loan from Credit Suisse and to the sale of monetary funds for €6.6 million. The remainder comprises the difference between overdraft funds used and those available.

Liabilities:

Interest-bearing loans and borrowings increased to €23.5 million from €3.1 million at year-end 2004. The increase relates to a subordinate loan from Credit Suisse for a net consideration of €9.8 million repayable over ten years, to be used on future investments and corporate expansion (see note 20) and to low-interest borrowings from Banco Nazionale del Lavoro for €6,8 million.

Trade and other payables at 31st December 2005 were €9.3 million, up from €8.8 million in the previous period. This is due to the growth in turnover which generates a normal and concordant increase in trade payables (see note 24).

Cash Flow:

Cash outflow from operating activities was €4,1 million for the year ended 31st December 2005. The rise in cash outflow is principally attributable to an increase in trade receivables of €10.7 million (see note 14 on trade receivables).

Cash outflow from investing activities amounted to €7.3 million in 2005. Investing outflows include €4.1 million for the purchase of investments (Pro-Advertising), €1.0 million for the purchase of intangible assets and €8.9 million for the purchase of equipment, less proceeds of €6.6 million from the sale of monetary funds.

In 2005 cash inflow from financing activities amounted to €20.4 million. This is due to loans and borrowings subscribed to in the course of the year.

Net cash and cash equivalents at year-end 2005 stood at €12.1 million.

Acquisitions:

Starline:

The investment of 30% in Starline made in June 2004 has continued to perform extremely well. By December 2005, the investment of €1.1 million in Starline had been repaid through the benefits provided.

Pro-Advertising S.r.l:

As reported in the notes to the last interim report, in July 2005 the Company acquired a 50% stake in Pro-Advertising S.r.l, an Italian based provider of paid content. The acquisition was financed through debt for a total consideration of €4.0 million repayable in eight bi-yearly instalments at a rate of EURIBOR + 1.5% commencing in July 2006. Under the terms of the agreement, Teleunit has supplied Pro-Advertising with a premium access number through which to distribute recipes, sports news, student notes and travel advice amongst other content. The webmaster advertises and disseminates this content on the internet and any revenues generated are split between Teleunit, Telecom Italia, Pro-Advertising and the webmaster. Aside from the benefits gained through the synergy of our offerings, Teleunit booked a 50% share of earnings from Pro Advertising in the amount of €283,000.

Outlook:

Trading since year-end:

The VAS division has been performing well in 2006. In January and February it generated revenues of €13.1 million. Our new platform has been received very well by our clients and traffic generated has been increasing. We are pleased with the progress this year and are seeing positive first results from the investments realised in 2005.

VoIP customer numbers in the fixed line division have for the past four months been showing a strong growth trend – At the end of December we acquired 170 new customers, in January 175, in February 282 and in March 690. From February to March we therefore almost tripled the number of new customers acquired. This is indicative of a strong growth trend and demonstrates that our strategy of pushing on VoIP is yielding strong results. Agents trained in the latter part of 2005 have been performing well in 2006 and we hope our more than 3000 strong VoIP customer base to lay the foundation for future growth. In Q1 2006 alone we have expanded our customer base by over one third and we hope this positive trend will continue.

In 2006, the Fixed Line division has also begun to deploy its products through resellers to further penetrate the market. In this initiative, smaller telecom operators wishing to sell products under their own brand can request a market-ready package of products or services from Teleunit, which the Company supplies to them at discounted rates.

Our Italian Mobile Content Services operation has continued to generate strong customer growth and at the end of March we had 335,000 active subscribers. Revenues have shown consistent growth from €633,000 in January, to €810,000 in February, to €930,000 in March. As of Mid-March we have also begun advertising of our 'Dindo Ultras' football service on SKY satellite television, which consists of visual content and associated news via SMS for the 6 largest teams in Italy. SKY has a monopoly on the broadcast of all national football matches, placing the division in a strong position to exploit their customer base

As stated in the mid-March RNS, we have expanded our Mobile Content Services operation to Turkey and we are still very confident of the prospects for growth forecast in this market. Within two weeks of launching the service we have acquired 1,600 subscribers. It should be noted that these numbers have been achieved on relatively light advertising pressure that is still in its early stages of development.

WLL has continued to perform well and as at the end of February we have grown our active customer base to 250. More than 150 customers have purchased the product and are awaiting installation and activation. Revenues have in the first two months of 2006 have amounted to 185,000 and gross margins have remained strong at 74%.

The wholesale division has pushed its strategy of direct interconnections throughout the first part of 2006 - new direct carrier to carrier agreements have been signed with leading Romanian and Algerian operators, and further agreements have been signed with other resellers and carriers. Revenues for the first quarter of 2006 have been growing at a steady 35% month on month, and at the end of February the division had contributed €473,000 to the Company's top line.

Market conditions are in our favour and year-on-year we remain profitable and continue to grow. Our market share is progressively increasing and our corporate structure is now significantly more solid. Trading since year-end has been strong. We are optimistic about future growth prospects across our business lines and look forward to presenting to our investors the forthcoming interim results.



TELEUNIT S.p.A.

FINANCIAL STATEMENTS

For the year ended 31 December 2005

INCOME STATEMENT
For the year ended 31 December 2005

<i>in thousands of euro</i>	Note	2005	2004
Sales revenue		85.404	60,767
Cost of sales		(67.208)	(47,198)
Gross profit		18,196	13,569
Administrative expenses		(2,710)	(1,460)
Sales and marketing expenses		(6,027)	(3,721)
Other net operating expenses		(4,586)	(1,794)
Total operating expenses		(13,323)	(6,975)
Profit from operations		4,873	6,594
Share of results of associates after tax		198	-
Net financing (costs)		(912)	(1,101)
Net financing income		1,014	141
Profit before tax		5,173	5,634
Income tax expense		(2.203)	(830)
Net profit for the year		2,970	4,804

Basic Earnings per share (euro)	8.1	0.016	0.0289
Diluted Earnings per share (euro)		0.0156	0.0288

(The accompanying notes form part of these financial statements)

FINANCIAL STATEMENTS
TELEUNIT S.p.A.

BALANCE SHEET
For the year ended 31 December 2005

<i>in thousands of euro</i>		No	2005	2004
Assets				
	Property, plant and equipment		14,118	7,936
	Intangible assets		1,436	675
	Investments in subsidiaries and associates		5,759	1,433
	Other investments		315	307
	Deferred tax assets		156	107
	Total non current assets		21,784	10,458
	Trade receivables		23,380	12,686
	Non trade receivables		3,795	3,709
	Cash and cash equivalents		20,204	3,812
	Current assets held for sale		1,305	764
	Other financial assets		52	6,597
	Total current assets		48,736	27,568
	Total assets		70,520	38,026
Equity				
	Issued capital		2,334	2,334
	Share Premium		12,656	12,656
	Reserves		261	80
	Retained earnings		11,818	9,025
	Total equity	19	27,069	24,095
Liabilities				
	Interest – bearing loans and borrowings		20,215	2,037
	Employee benefits		207	119
	Provisions		100	100
	Deferred tax liabilities		1,178	578
	Total non current liabilities		21,700	2,834
	Bank overdrafts		8,106	757
	Interest – bearing loans and borrowings		3,253	1,029
	Trade and other payables		9,271	8,795
	Income tax payable		1,121	516
	Total current liabilities		21,751	11,097
	Total equity and liabilities		70,520	38,026

(The accompanying notes form part of these financial statements)

STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2005

<i>in thousands of euro</i>	Share capital	Legal reserve	Share premium	Own shares	Retained earnings	Total
Balance at 1 January 2004	1,700	70	-	-	4,408	6,178
Net profit 2004	-	124	-	-	4,680	4,804
Other	-	-	-	-	(63)	(63)
Own shares acquired	-	-	-	(114)	-	(114)
Shares issued	<u>634</u>	<u>-</u>	<u>12,656</u>	<u>-</u>	<u>-</u>	<u>13,290</u>
Balance at 31 December 2004	<u>2,334</u>	<u>194</u>	<u>12,656</u>	<u>(114)</u>	<u>9,025</u>	<u>24,095</u>
Balance at 1 January 2005	2,334	194	12,656	(114)	9,025	24,095
Net profit 2005		181			2,789	2,970
Other					<u>4</u>	<u>4</u>
Balance at 31 December 2005	<u>2,334</u>	<u>375</u>	<u>12,656</u>	<u>(114)</u>	<u>11,818</u>	<u>27,069</u>

(The accompanying notes form part of these financial statements)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2005

<i>in thousands of euro</i>	Note	2005	2004
Operating activities			
Net profit (loss) for the year		2,970	4,804
<i>Adjustments for:</i>			
Depreciation and amortization		2,384	1,628
Employee benefits	19	120	61
Deferred tax		551	314
Share of results of associates after tax		(198)	-
(Gain) losses from disposal of assets		(124)	-
		5,703	6,807
(Increase) decrease in trade receivables		(10,694)	(8,211)
(Increase) decrease in non trade receivables		(86)	(954)
Increase (decrease) in trade and other payables and income tax		2,050	2,827
Income tax paid		(971)	(2,068)
Retirement benefits payment		(32)	-
Other		(36)	12
Cash flows from operating activities		(4,066)	(1,587)
Investing activities			
Sale (purchase) of property, plant and equipment	9	(8,920)	(4,158)
Proceeds from sale of fixed assets	9	93	125
Sale (purchase) of intangible assets	10	(999)	(440)
Sale (purchase) of investments in associates		(4,131)	(1,338)
Sale (purchase) of other investments		(5)	(284)
Sale (purchase) of monetary collective investment funds		6,669	(6,545)
Cash flows from investing activities		(7,293)	(12,640)
Financing activities			
Proceeds from loans and borrowings		20,402	498
Proceeds from the issue of share capital		-	634
Increase in share premium (Net of unsubscribed amount)		-	14,278
Payment of transaction costs		-	(1,710)
Purchase of own shares		-	(114)
Cash flows from financing activities		20,402	13,586
Net increase (decrease) in cash and cash equivalents		9,043	(641)
Net cash and cash equivalents (net of overdrafts) at 1 January		3,055	3,696
Net cash and cash equivalents (net of overdrafts) at 31 December		12,098	3,055

(The accompanying notes form part of these financial statements)

NOTES TO THE FINANCIAL STATEMENTS

(forming part of the financial statements)

Teleunit S.p.A. ("the Company") is a company domiciled in Italy.

The financial statements were authorised for issue by the Board of Directors on 6 April 2006.

Significant accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial Information.

(a) *Statement of compliance*

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretation adopted by the International Accounting Standards Board (IASB).

The financial statements derive from the books of account of the company, prepared in accordance with Italian GAAP to which appropriate adjustments have been applied.

(b) *Basis of preparation*

The financial statements are presented in thousands of euro and have been prepared on the historical cost basis except for derivative financial instruments and employee benefit obligations, which are stated at their fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments made by management in the application of IFRS that have significant effect on the financial statements and estimates with a significant risk of material adjustments in the next year are discussed in note 27 and 28.

The financial statements are composed of the income statement, balance sheet, statement of changes in equity, statement of cash flows and notes to the financial statements. The notes provide further information regarding the income statement, balance sheet, cash flows statement and movement in capital and reserves.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements except for 2004 personnel expenses that in 2005 have been classified differently

amongst administrative expenses, sales and marketing expenses and cost of sales. This decision has been taken by management on the premise of better presentation and more accurate classification of elements contained in the income statements. Note 2 discloses the effects of this accounting treatment.

(c) Intangible assets

Intangible assets (including internally generated software) and licenses are stated at cost less accumulated amortisation and impairment losses (see accounting policy (I)). Intangible assets are amortised on a straight line basis from when they are available for use and are amortised over their estimated useful lives. The following items are amortised as such:

- Software is amortized on a straight line basis over 5 years.
- Licenses are amortised on a straight line basis over 15 years to 20 years.

(d) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see accounting policy (I)). Land is not depreciated. Assets acquired under finance leases, being those for which the company substantially assumes all the risks and rewards of ownership, are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the lease. Assets are depreciated on a straight-line basis over their estimated useful lives as follows:

- Buildings: 33 years
- Plant and equipment:
 - Telephone plant: 8 years.
 - Dialers, private phones, WLL equipments: 5 years.
 - Telephone and WLL exchanges: 5.5 years.
 - Specific plants: 20 years.
- Other:
 - Movable property: 8 years.
 - Motorcars: 4 years.
 - Leasehold improvements, which are depreciated on a straight line basis over the duration of the rental contract.

The carrying values of items falling under property, plant and equipment include the cost of replacing part of such item if such replacement guarantees reliably quantifiable future economic benefits to the Company. All other costs are recognised in the income statement as an incurred expense.

(e) Investments

(I) Investments in unconsolidated subsidiaries

The company's investments in subsidiaries which, alone and in aggregate, are immaterial to the financial position, performance and cash flows have not been consolidated. Unconsolidated subsidiaries are stated at cost and subject to impairment (see accounting policy (l)).

(II) Investments in associates

Associates are those entities in which the company has significant influence, but not control, over the financial and operating policies. The financial statements include the share of the total recognised gains and losses of associates on a equity accounted basis, from the date that significant influence commences until the date of that significant influence ceases.

(f) Derivative financial instruments

The company uses derivative financial instruments to hedge exposure arising from financing activities or exchange rate fluctuation risks. However, derivatives that do not qualify for hedge accounting are accounted at fair value. The derivatives financial instruments are valued at the estimated amount that the company would pay to terminate the swap at the balance sheet date.

(g) Foreign currency transactions

Transactions in foreign currency are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at the date. Foreign exchange differences arising on translation are recognised in the income statement.

(h) Trade and other receivables

Trade and other receivables are stated at their amortised costs less impairment losses (see accounting policy (l)). Amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate. Current receivables are not discounted.

(i) Cash and cash equivalents

Cash and cash equivalents consist of cash balances and deposits with banks. For the purposes of the statement of cash flows, cash and cash equivalents are shown net of bank current account overdrafts recorded in "bank overdrafts".

(l) Impairment

The carrying values of the company's assets, other than deferred tax assets (see accounting policy (r)), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and tangible assets that are not

yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying value of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses for cash-generating units are allocated first to reduce the carrying value of any goodwill allocated to the unit, and to reduce the carrying value of other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only when the asset's carrying value does not exceed the carrying value that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(m) Provisions for liabilities and charges

A provision is recognised in the balance sheet when the company has a legal or constructive obligation as a result of a past event, and it is probable that outflow of economic benefits will be required to settle the obligation.

(n) Employee benefits

The company's net obligation in respect of employee retirement benefits is calculated separately for each employee, by estimating the amount of future benefit that employees have earned in return for their services in the current and prior periods; that benefit is discounted to determine the present value. The calculation is performed by a qualified actuary using the projected unit credit method.

Certain share option agreements allow company's management to acquire shares of the company. The fair value of options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options.

(o) Interest-bearing loans and borrowings

Interest-bearing borrowings are recognised initially at their fair value, less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost, with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

(p) Turnover and cost of sales

Turnover represents revenues for services rendered before or at the balance sheet date. Turnover and cost of sales are booked net of discounts and premiums:

- Revenues from services rendered are recognised at the balance sheet date and include traffic volumes recorded in the same period;

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- Revenues from services rendered are recognised upon service activation and any correlated costs are recognised in the same period;
 - Costs are recognised in relation to the service acquired or in relation to the period in which they are incurred;

The services are Fixed Line Telephony ("FLT"), Wireless Local Loop ("WLL"), Mobile Content Services ("MCS"), Premium Access ("PA") and Wholesale Services ("WHS"). Revenue relating to FLT and WLL are determined on the basis of calls made by the clients through telephone exchanges owned by the company or owned by other telephone carriers, with whom the Company has code hosting contracts.

PA revenues are based on connections made by clients of Telecom Italia who use premium rate telephone numbers owned by the company to connect with internet sites and other phone services.

The revenue in relation to WHS services is invoiced and recognised monthly.

MCS revenues are recognized one month after services are rendered.

(g) Sponsorship and advertising costs

Sponsorship expenses are charged against income on a straight line basis over the duration of the related contracts. Advertising costs, which relate principally to poster and newspaper and television advertising, are expensed as incurred.

(r) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except when it relates to items recognised directly in equity, in which case it is recognised in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences do not provide for: Goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

(s) Net financing costs/(income)

Net financing costs/(income) comprise interest payable on borrowings, finance lease payments, foreign exchange differences arising on translation, gains or losses on derivatives that are recognised in the income statement and interest income as calculated using the effective interest rate method.

(t) Segment reporting

A segment is a distinguishable component of the company that is engaged in providing products or services (business segment), which is subject to risks and rewards that are different from those of other segments.

Management has identified the following main business segments:

- Fixed line telephony ("FLT")
- Wireless Local Loop ("WLL")
- Mobile Content Services ("MCS")
- Premium Access ("PA")
- Wholesale ("WHS")

The Company's commercial activity takes place almost entirely in Italy and accordingly a geographical segment report has not been prepared as it is considered immaterial.

(u) Current assets held for sale

Current assets held for sale are stated at the lower of carrying amount and fair value less costs of sale.

Notes to the financial statements

1 Segment reporting

1.1 Business segment

Teleunit S.p.A. is a company active in supplying a wide range of telecommunications services. The company's core customers are small to medium businesses and residential customers.

Management has identified the following main business segments:

- Fixed line telephony ("FLT")
- Wireless Local Loop ("WLL")
- Mobile Content Services ("MCS") MCS has been identified as a separate segment in 2005
- Premium Access ("PA")
- Wholesale ("WHS")

The Fixed Line division has defined Teleunit since its inception and been the basis for the Company's national operator license obtained in 1997. The most traditional service is Carrier Pre Selection ("CPS") with calls routed on Telecom Italia's network through a dialling prefix. The most recent offerings consist of bundled voice and data solutions with ADSL being the carrier for Voice over Internet Protocol ("VoIP"). Teleunit's Unilibera and GoVoIP offer customers a single telecoms solution and an efficient and cost-effective alternative to Telecom Italia.

Teleunit has marked itself as an innovator in last mile connectivity solutions by implementing its proprietary WLL network in Umbria and Tuscany. This solution has permitted clients to free themselves from monthly line rental by communicating via a dedicated 24.5Ghz radio frequency, thus bypassing Telecom Italia's costly 'last mile' infrastructure. WLL's ability to handle high levels of traffic and bandwidth make it a premier solution for large corporate clients.

The Mobile Content Services business line was an initiative started in November 2004 to provide premium content to mobile users. With its assigned 5-digit number (48288) and through a partnership agreement with its dedicated UK content provider, Teleunit has developed its own range of services which it markets in Italy through a number of advertising channels under the brand name "DINDO". The Mobile Content Services business was considered as "other" in the 2004 segment report.

The Premium Access division has been operational since 2002, and supplies premium access numbers (899 prefix) to content providers wishing to sell their voice or data content via telephone and internet.

The Wholesale offering is aimed at licensed operators, international carriers, internet service providers (ISP), phone shops, and resellers who own and operate their own telephony infrastructure. Services range from call collection to call termination on a national and international scale, with the latter service dedicated only to 'switched' clients. Clients can also request comprehensive call collection and termination packages via Teleunit's proprietary access code.

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The following table provides information regarding the main business segments:

	2005							2004					
	FLT	WLL	MCS	PA	WHS	UNALLOCATED	TOTAL	FLT	WLL	PA	WHS	UNALLOCATED	TOTAL
<i>in thousands of euro</i>													
Sales	7,136	1,481	3,594	69,235	3,957	-	85,404	7,926	619	42,534	9,531	158	60,768
Cost of sales	(4,720)	(325)	(1,191)	(55,820)	(3,255)	(1,897)	(67,208)	(4,376)	(188)	(33,322)	(7,097)	(2,215)	(47,198)
Gross profit	<u>2,416</u>	<u>1,156</u>	<u>2,403</u>	<u>13,415</u>	<u>702</u>	<u>(1,897)</u>	<u>18,196</u>	<u>3,550</u>	<u>431</u>	<u>9,212</u>	<u>2,434</u>	<u>(2057)</u>	<u>13,569</u>
Operating expenses	(923)	(2,212)	(3,390)	(689)	(134)	(5,975)	13,323	(745)	(28)	(109)	(4)	(6,089)	6,975
Profit from operations	<u>1,493</u>	<u>(1,056)</u>	<u>(987)</u>	<u>12,726</u>	<u>568</u>		<u>4,873</u>	<u>2,805</u>	<u>403</u>	<u>9,103</u>	<u>2,430</u>	<u>69</u>	<u>6,594</u>
Segment trade receivables	1,344	134	2,918	17,592	850	541	23,380	1,736	244	6,691	3,865	150	12,686
Segment investments in associates	-	-	-	5,759	-	-	5,759	-	-	1,425	-	-	1,425
Segment non trade receivables	370	653	41	221	194	2,316	3,795	199	275	39	22	163	698
Other assets	1,529	6,236	22	312	305	29,182	<u>37,586</u>	-	-	-	-	23,217	<u>23,217</u>
Total assets							<u>70,520</u>						<u>38,026</u>
Segment trade payables	306	274	2,014	2,902	19	2,770	8,285	995	269	3,140	1,936	365	6,705
Unallocated liabilities	-	-	-	-	-	-	<u>35,509</u>	-	-	-	-	-	<u>7,226</u>
Total liabilities							<u>43,451</u>						<u>13,931</u>
Net Equity							<u>27,069</u>						<u>24,095</u>
Total							<u>70,520</u>						<u>38,026</u>

NOTES TO FINANCIAL STATEMENTS

TELEUNIT S.p.A.

Other allocated expenses refer mainly to commissions on sales, advertising expenses related to the MCS division, government licenses, rent costs and credit recovery expenses.

Unallocated income/expenses mainly relate to sponsorship expenses, amortisation and depreciation, administrative expenses, rent of the interconnection cables and other operating income/expenses which are not assignable to a specific line of business.

Other assets refer mainly to property plant and equipment, intangible assets, cash and cash equivalents, deferred tax assets, other financial assets which refer to the company as a whole, and to other items not assignable to a specific line of business.

Unallocated liabilities refer mainly to loans and borrowings, bank overdraft, other payables and current taxes.

Part of the investment for WLL in Tuscany has not been amortised as the equipment has still not been installed and is therefore not operational. This equipment has a net book value of €2,853,000.

1.2 Geographical segment

The Company's commercial activity takes place almost entirely in Italy and accordingly a geographical segment report has not been prepared as it is considered immaterial.

2 Personnel expenses

These can be broken down as follows:

<i>in thousands of euro</i>	2005	2004
Salaries	2,067	1,285
Social security contributions	640	335
Employee benefits	120	80
Other	39	4
Total	<u>2,866</u>	<u>1,704</u>

Personnel expenses are recognised in the following items in the income statement:

<i>in thousands of euro</i>	2005	2004
Cost of sales	66	604
Administrative expenses	1,118	576
Sales and marketing expenses	1,082	524
Other expenses/incomes	600	-
Total	<u>2,866</u>	<u>1,704</u>

The increase in personnel expenses is due to an increase in the Company's employee base, including an increase in the number of upper-level managers. It should be noted that in 2004, all technical personnel expenses were classified as cost of sales. In 2005 these have been reclassified according to IFRS, and only a proportion of technical personnel expenses have been booked as cost of sales. Had the P&L 2004 been classified as P&L 2005 the gross profit 2004 would have been higher by approximately €600,000 without any effect on profit from operations and net profit for the year.

NOTES TO FINANCIAL STATEMENTS
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3 Administrative expenses

in thousands of euro

	2005	2004
Administrative expenses	1,592	884
Personnel expenses	<u>1,118</u>	<u>576</u>
Total	<u>2,710</u>	<u>1,460</u>

4 Sales and marketing expenses

In thousands of euro

	2005	2004
Sponsorship expenses	808	1,745
Commission on sales to agents	1,016	887
Advertising costs	1,183	440
Personnel expenses	1,082	524
Other costs	<u>1,938</u>	<u>125</u>
Total	<u>6,027</u>	<u>3,721</u>

Advertising costs mainly include the cost of direct-response advertising used by the company to offer Mobile Content Services (MCS). The service, which can be accessed by dialing a short number code using any mobile phone operator, provides premium content to mobile users paying a weekly tariff. This contract "signed" by the users dealing the short term code implies weekly updated contents and remains valid until the client sends notice of termination to the company.

The average life of contract signed, based on management information, is approximately 20 weeks, during which each contract generates the periodic traffic.

As these costs do not meet the IFRS requirements for recognizing an asset they have been entirely debited to income statement as incurred even if the related contracts will produce revenues in the first quarter of 2006.

5 Other net operating expenses

in thousands of euro

	2005	2004
<i>Other income:</i>		
- Recovery of invoicing expenses	(217)	(212)
- Recovery of legal fees	(145)	(159)
- Discount received on prepayment	(616)	-
- Other	(183)	(125)
Total other income	<u>(1,161)</u>	<u>(496)</u>
<i>Other expenses:</i>		
- System rent and other technical charges	2,127	884
- Car rent	134	-
- Building rent	526	221
- Communication rights	556	240
- Legal, fiscal, financial and technical consultancy	326	172
- Recovery credit expenses	151	163
- Bank commissions on currency accounts	160	120
- Other personnel expenses	600	-

NOTES TO FINANCIAL STATEMENTS
TELEUNIT S.p.A.

- Depreciation and amortisation	553	-
- Other	614	490
Total other expenses	5,747	2,290
Total	4,586	1,794

Other personnel expenses refer to the portion of personnel expenses that are not included as cost of sales, administrative expenses, and sales and marketing expenses.

6 Financing costs/(income)

<i>in thousands of euro</i>	2005	2004
<i>Financing costs:</i>		
Interest expense	838	229
Foreign exchange loss	7	-
Adjustment for monetary collective investment funds	46	-
Other financing cost/(income)	21	-
Adjustment for derivatives	-	872
Financing costs	912	1101
<i>Financing income:</i>		
Adjustment for derivatives	(793)	-
Income from other investments	(123)	-
Interest income	(89)	(21)
Adjustment for monetary collective investment funds	-	(46)
Swap	(9)	-
Foreign exchange profit	-	(74)
Financing income	1014	141

During 2004, the Company entered some forex option agreements which provide for a non-revocable forward purchase of US Dollars at future dates (February 2005 and September 2005) at a fixed exchange rate.

In the last year, the negative fair value of these financial instruments, considering the actual effect of the options exercised after 31 December 2004, have been determined to amount to €876,000 and has been booked as a financing cost.

During 2005, the total effect of these forex options has been determined to amount to €793,000 and has been booked as financing income as follows:

- At February 2005, €22,000 representing the income generated as at the first date of exercise
- At June 2005, €771,000 representing the income generated from the premature unwinding of the forex options originally ending in September 2005

7 Income tax expense

Two taxes are applicable to the company:

- Corporate income tax (IRES) at the rate of 33%
- Regional tax (IRAP) at the rate of 4.25%

The difference in tax rates arises from the different basis for the two taxes.

<i>in thousands of euro</i>	2005	2004
Current tax expense:		
- IRES	1,279	263
- IRAP	297	253
Total current tax expense	<u>1,576</u>	<u>516</u>
Deferred tax (income) expense	627	314
Total	<u>2,203</u>	<u>830</u>

Income tax expense (income) may also be analysed as follows:

<i>in thousands of euro</i>	2005	2004
IRES	1,864	522
IRAP	339	308
Net (income) expense	<u>2,203</u>	<u>830</u>

Reconciliation of the effective tax rate (IRES and IRAP)

<i>in thousands of euro</i>	2005 %	2005	2004 %	2004
Profit (loss) before tax		5,173		5,634
Income tax at standard rate ¹	37.25	1,927	24.25	1,366
Permanent differences		209		(5)
Tax exempt revenues – flotation expenses		-		(383)
Effect on tax due to variation of tax rate (24.25% to 37.25%)		<u>63</u>		<u>(148)</u>
Total		<u>2,203</u>		<u>830</u>

The different standard rate applied in the two years is commented in note 28

¹ With reference to the reduced tax rate for 2004 please refer to note 28

8 Earnings per share

8.1 Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2005 and 2004 have been determined as net profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares for each year considering the effect of change in nominal value of shares commented on in note 18.

Net profit attributable to ordinary shareholders

<i>in thousands of euro</i>	2005	2004
Net profit attributable to ordinary shareholders	2,970	4,804

Weighted average number of ordinary shares

<i>in thousand of shares</i>	2005	2004
Issued ordinary shares at the beginning (0.0125 € per share)	186,744	136,000
Effect of shares issued on 26 May 2004		<u>29,890</u>
Weighted average number of ordinary shares	<u>186,744</u>	<u>165,890</u>

<i>in euro</i>	2005	2004
Basic earnings per share at 31 December	0.016	0.0289

8.2 Diluted earnings per share

Diluted earnings per share are calculated by dividing the profit for the period attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the period adjusted for the effects of all potentially dilutive shares (e.g. employees stock options).

<i>in thousands of euro</i>	2005	2004
Net profit attributable to ordinary shareholders (diluted)	2,970	4,804

NOTES TO FINANCIAL STATEMENTS
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Weighted average number of ordinary shares (diluted)

<i>in thousands of shares</i>	2005	2004
Issued ordinary shares at 31 December	186,744	136,000
Effect of shares issued on 26 May 2004	-	29,890
Effect of shares option agreements	3,238	356
Weighted average number of ordinary shares (diluted) at 31 December	<u>189,982</u>	<u>166,246</u>

<i>in euro</i>	2005	2004
Diluted earnings per share at 31 December	0.0156	0.0288

9 Property, plant and equipment

<i>in thousands of euro</i>	Land and buildings	Plant and equipment	Other	Total
As at 31 December 2004				
<i>Cost:</i>				
Balance at 1 January 2004	579	5,814	833	7,226
Additions	12	3,573	573	4,158
Disposals	-	-	(125)	(125)
Balance at 31 December 2004	<u>591</u>	<u>9,387</u>	<u>1,281</u>	<u>11,259</u>
<i>Depreciation:</i>				
Balance at 1 January 2004	(26)	(1,518)	(295)	(1,839)
Depreciation charge for the year	(18)	(1,292)	(207)	(1,517)
Disposals	-	-	33	33
Balance at 31 December 2004	<u>(44)</u>	<u>(2,810)</u>	<u>(469)</u>	<u>(3,323)</u>
Carrying value at 31 December 2003	553	4,296	538	5,387
Carrying value at 31 December 2004	547	6,577	812	7,936

<i>in thousands of euro</i>	Land and buildings	Plant and equipment	Other	Total
As at 31 December 2005				
<i>Cost:</i>				
Balance at 1 January 2005	591	9,387	1,281	11,259
Additions	2,617	5,558	743	8,918

NOTES TO FINANCIAL STATEMENTS
TELEUNIT S.p.A.

Disposals	-	(4)	(153)	(157)
Reclassification	(541)	-	-	(541)
Balance at 31 December 2005	<u>2,667</u>	<u>14,940</u>	<u>1,871</u>	<u>19,479</u>
<i>Depreciation:</i>				
Balance at 1 January 2005	(44)	(2,810)	(469)	(3,323)
Depreciation charge for the year	(48)	(1,831)	(216)	(2,095)
Disposals	-	<u>2</u>	<u>55</u>	<u>57</u>
Balance at 31 December 2005	<u>(92)</u>	<u>(4,639)</u>	<u>(630)</u>	<u>(5,361)</u>
Carrying value at 31 December 2004	547	6,577	812	7,936
Carrying value at 31 December 2005	2,576	10,302	1,241	14,118

The increase in investments in tangible assets for the year 2005 is due mainly to the acquisition (partially acquired under financial lease contracts) of a new telephone exchange station for €1,175,000, to new hardware for the ADSL VoIP market launch for €1,672,000, and to equipment for WLL in Tuscany for €1,831,000.

In February the Company acquired a new office building for €2,575,000 financed by an interest-bearing loan of €2,100,000 repayable over ten years at a rate of euribor + 0,95 per cent.

Reclassification refers to the Company's old office building which is classified as an assets held for sale (see note 16).

The company leases production equipment under a certain number of finance lease agreements. At the end of each lease, the company has the option to purchase the equipment at a discounted price. As at 31 December 2005, the net carrying value of leased plant and equipment was €5,192,000.

Part of the investment for WLL in Tuscany has not been amortised as the equipment has still not been installed and is therefore not operational. This equipment has a net book value of €2,853,000. As a consequence, such investments, which have been considered as cash-generative units, have been subject to an impairment test, as required by IAS 36. In particular, the recoverable amount of WLL investments have been calculated on the basis of the estimated future cash-flow expected from the assets. Such estimated future cash-flows have been determined based on reasonable and supportable assumptions concerning projection of cash-flow approved by management for the period 2006-2010. The expected cash-flows have been discounted, on grounds of prudence, using a weighted average cost of capital (WAAC) of approximately 14%. The recoverable amount of the WLL investment exceeds its net book value and, consequently, no impairment for losses has been accounted for.

Depreciation charge

The depreciation charge is recognised in the following line items in the income statements:

<i>in thousands of euro</i>	2005	2004
Cost of sales	1,831	1,434
Other expenses	<u>316</u>	<u>50</u>
Total	<u>2,147</u>	<u>1,484</u>

10 Intangible assets

<i>in thousands of euro</i> As at 31 December 2004	Software	Licences, trademarks and similar rights	Other	Total
<i>Cost:</i>				
Balance at 1 January 2004	224	255	74	553
Additions	424		16	440
Disposals	—	—	—	—
Balance at 31 December 2004	<u>648</u>	<u>255</u>	<u>90</u>	<u>993</u>
<i>Depreciation:</i>				
Balance at 1 January 2004	(103)	(44)	(26)	(173)
Amortisation charge for the year	(121)	(13)	(11)	(145)
Balance at 31 December 2004	<u>(224)</u>	<u>(57)</u>	<u>(37)</u>	<u>(318)</u>
Carrying value at 31 December 2003	121	211	48	380
Carrying value at 31 December 2004	424	198	53	675

<i>in thousands of euro</i> As at 31 December 2005	Software	Licences, trademarks and similar rights	Other	Total
<i>Cost:</i>				
Balance at 1 January 2005	648	255	90	993
Additions	992	1	5	999
Disposals	—	—	—	—
Balance at 31 December 2005	<u>1,640</u>	<u>256</u>	<u>95</u>	<u>1,992</u>
<i>Depreciation:</i>				
Balance at 1 January 2005	(224)	(57)	(37)	(318)
Amortisation charge for the year	(213)	(13)	(12)	(238)
Balance at 31 December 2005	<u>(437)</u>	<u>(70)</u>	<u>(49)</u>	<u>(556)</u>
Carrying value at 31 December 2004	424	198	53	675
Carrying value at 31 December 2005	1,203	186	46	1,436

The increase in the carrying value of intangible assets in 2005 relates to internally generated software supporting the fixed line division and other business segments. Such software will be available for use in 2006, and consequently has not been depreciated in 2005.

Amortisation charge

The amortisation charge is recognised in the following line items in the income statement:

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<i>in thousands of euro</i>	2005	2004
Cost of sales	-	89
Other expenses	238	56
Total	238	145

11 Investments in subsidiaries and associates

These can be broken down as follows:

<i>in thousands of euro</i>	2005	2004
Starline S.p.A.	1,040	1,125
TLT Net S.r.l.	8	8
Pro Advertising Srl	4,392	-
Receivables due from associates	319	300
Total	5,759	1,433

'Receivables due from associates' refers to an interest-bearing loan lent to Starline S.p.A. with the purpose of supporting the business of the associate. The loan will mature at 30 June 2007 and the interest rate is EURIBOR + 1.5%. The increase of €19,000 is from interest accrued in the period.

The following chart summarises basic information regarding these subsidiaries and associates as at 31 December 2005:

<i>in thousands of euro</i>	Revenues 31.12.2005	Net financial position	Share capital 31.12.05	Book value 31.12.05	% of Share participation	Net Equity 31.12.05	Share of equity 31.12.05
Starline S.p.A.				1,040	30		
TLT Net S.r.l.				8	71		
Pro Advertising S.r.l.				4,392	50		
Moneyfast	0	0	0	0	0	0	0

Subsidiaries

(a) TLT Net Srl

TLT Net Srl is an ISP (Internet Service Providers; ISPs provide connection to the Internet). TLT Net was founded in 2000 and has always acted as an internal service department supplying internet services to Teleunit and its client base.

(b) Moneyfast Srl

Moneyfast Srl was founded in early 2002 to develop a money transfer mechanism, in partnership with the Banca Eurosystemi S.p.A (previously ICCRI Banca Federale Europea S.p.A); the idea was to allow pre-paid phone card users to transfer the monetary value stored on their pre-paid card securely to a recipient in their country of origin.

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Due to the start-up losses incurred by Moneyfast Srl in its first year of activity and the impossibility to continue in the business because of a legal claim against its former banking partner, the Company fully wrote-off its investment in this subsidiary at 31 December 2004. A loan of €153,000 granted to the subsidiary was also written off.

On 21 March 2005, the shareholder's meeting of Moneyfast Srl deliberated the liquidation of the company. Management are confident that no further expenses or liabilities will arise from the liquidation.

Associates

(a) Starline Spa

Starline Srl is a company which operates in the PA market. In June 2004 the company acquired 30% of Starline's share capital for €1,125,000; as mentioned above, an interest-bearing loan of €300,000 was also granted to the associate.

On the date of acquisition a contract was signed between Teleunit and Starline. The contract provides that :

- Within 4 months since the date of the contract agreement, Starline must route at least 60% (85% within 8 months) of its calling traffic through the Teleunit network.
- Starline must advertise in newspapers and on TV only and exclusively using Teleunit's numbers.

The agreement provides for a deadline of 31 December 2007, even if tacit yearly renewals can be agreed upon between the parties.

(b) Pro-Advertising Srl

As reported in the notes to the last interim report, in July 2005 the Company acquired a 50% stake in Pro-Advertising S.r.l, an Italian based provider of paid content. The acquisition was financed through debt for a total consideration of €4.0 million repayable in eight bi-yearly instalments at a rate of EURIBOR + 1.5% commencing in July 2006. Under the terms of the agreement, Teleunit has supplied Pro-Advertising with a premium access number through which to distribute recipes, sports news, student notes and travel advice amongst other content. The webmaster advertises and disseminates this content on the internet and any revenues generated are split between Teleunit, Telecom Italia, Pro-Advertising and the webmaster. Aside from the benefits gained through the synergy of our offerings, Teleunit booked a 50% share of earnings from Pro Advertising for €283,000.

The investments in both Starline and Pro Advertising have been subject to an impairment test. Each of the above investments has been considered as a separate cash-generative unit. The recoverable amount of each investment has been calculated based on the estimated future cash-flow expected from the asset. Such estimated future cash-flows have been determined based on reasonable and supportable assumptions concerning projection of cash-flow approved by management for the period 2006-2007 (2008 for Pro-Advertising). The expected cash-flows have been discounted, on grounds of prudence, using a weighted average cost of capital (WAAC) of approximately 14%. The recoverable amount of each of the above investments exceeds its net book value and, consequently, no impairment for losses has been accounted for.

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12 Other investments

<i>in thousands of euro</i>	2005	2004	Expiry date
Teleunit shares held by EBT	292	284	N/A
Index linked policy insurance	10	10	April 2007
Other insurance policies	10	10	July 2007
Other	3	3	N/A
Total	<u>315</u>	<u>307</u>	

13 Deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable as follows:

<i>in thousands of euro</i>	Assets		Liabilities	
	2005	2004	2005	2004
Property, plant and equipment	-	-	2,403	1,772
Property, plant and equipment (Leasings)	-	-	558	106
Intangible assets	-	(47)	-	-
Investments	(167)	(167)	-	-
Other investments	-	-	-	46
Trade receivables	(101)	(115)	159	64
Employee benefit obligations	-	-	43	41
Other payables	-	(9)	-	-
Interest-bearing loans and borrowings	(39)	-	-	-
Provisions	(100)	(100)	-	-
Other	(11)	-	-	-
Temporary differences	<u>(418)</u>	<u>(438)</u>	<u>3.163</u>	<u>2.029</u>
Net tax (assets)/liabilities²	<u>(156)</u>	<u>(106)</u>	<u>1.178</u>	<u>492</u>

Please refer to note 28 for information on tax benefits.

The temporary differences in property, plant and equipment are due to the different accounting treatment (between Italian GAAP and IFRS) of assets acquired under financial leasing contracts and the effect of the accelerated depreciation, in part for the write-off of the accelerated depreciation previously recorded in the statutory financial statements (as permitted by previous Italian tax rules) and in part for the accelerated depreciation permitted, from 2004, only in the income tax return.

14 Trade receivables

<i>in thousands of euro</i>	2005	2004
Trade receivables due from associates	18	126
Other trade receivables	22,536	12,699
Bad debt provision	(174)	(139)
Total	<u>23,380</u>	<u>12,686</u>

² Considering IRES at an ordinary rate of 33% and IRAP at the ordinary rate of 4.25% for the years 2005, 2006 and subsequent years

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The increase in trade receivables in 2005 is mainly due to PA clients (€6,776,670) of which Telecom Italia receivables associated with the division account for €661,000 as at 31 December 2004 and €5,729,670 as at 31 December 2005, WHS clients for €850,000, MCS mobile operators for €2,918,000 and FLT clients for €1,344,000.

Certain receivables due from Telecom Italia for a total amount of €6.6 million are commented on in note 27.

15 Non trade receivables

<i>in thousands of euro</i>	2005	2004
Prepaid expenses and accrued income	3,209	1,383
Tax receivables	-	990
Advance payments	236	643
Cautionary deposits	163	457
Receivables due from shareholders	-	88
Other	<u>187</u>	<u>148</u>
Total	<u>3,795</u>	<u>3,709</u>

Prepaid expenses and accrued income refer mainly to deferred sponsorship costs referring to 2006 and 2007 for €1,230,000 and to the WLL Tuscany license for €403,000.

16 Current assets held for sale

Current assets held for sale relate to the 2004 purchase of land in Spello, and to the Company's old office building. The Company believes that it is highly probable that the land and the old head-office will be disposed of in the course of 2006.

17 Cash and cash equivalents

Cash and cash equivalents consist of bank and postal account deposits.

18 Other financial assets

<i>in thousands of euro</i>	2005	2004
Monetary collective investment funds	52	6,597

In the last days of June 2005 the monetary collective funds acquired in June 2004 after the flotation for €6,545,000 were almost completely sold with a net financial profit of €98,000. No additional costs or exit or entry commission is due for these instruments which are utilized for treasury management and do not have significant fair value risks.

19 Equity

<i>in thousands of euro</i>	Share Capital	Legal Reserve	Share premium	Own Shares	Retained earnings	Total

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Balance at 1 January 2004	1.700	70	-	-	4,408	6,178
Net profit 2004	-	124	-	-	4,680	4,804
Other	-	-	-	-	(63)	(63)
Own shares acquired	-	-	-	(114)	-	(114)
Shares issued	634	-	12,656	-	-	13,290
Balance at 31 December 2004	2,334	194	12,656	(114)	9,025	24,095
Balance at 1 January 2005	2,334	194	12,656	(114)	9,025	24,095
Net profit 2005	-	181	-	-	2,789	2,970
Other	-	-	-	-	4	4
Balance at 31 December 2005	2,334	375	12,656	(114)	11,818	27,069

The authorised share capital of the Company as at 31 December 2005 amounts to €2,334,303.11 and consists of number 186,744,249 Ordinary Share of 0.0125 euro each.

Legal Reserve

Article no.2430 of the Italian civil code provides that share companies fund a legal reserve, when the statutory financial statements are approved by the shareholders, accruing every year at least 5% of the yearly net profit. Such obligation lasts until the company has created in its net equity a legal reserve corresponding to 20% of the paid-up capital. This amount refers to statutory account figures.

The reconciliation between the statutory equity and the IFRS equity is as follows:

<i>in thousands of euro</i>	Equity 2004	Profit 2005	Equity 2005	Deferred Tax (Assets/Liabilities)
Statutory (local GAAP)	24,105	2,609	26,714	-
Intangible assets	(47)	47	-	-
Amortised cost CSFB	-	(39)	(39)	16
Leasing effect (IAS 17)	106	452	558	(208)
Stock Options	-	(4)	-	-
Own shares	(114)	-	(114)	-
Retirement benefit obligations	41	2	43	(16)
SWAP	(9)	9	-	-
Net equity participations	-	198	198	-
Fair value monetary collective funds	46	(46)	-	-
Other	-	-	-	-
Total adjustments	23	619	646	(208)
Deferred tax assets	14	2	16	-
Deferred tax liabilities	(47)	(177)	(224)	-
Deferred tax	-	(83)	(83)	-
IFRS	24,095	2,970	27,069	-

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20 Interest-bearing loans and borrowings

Contractual terms

in thousands of euro

Financial institution	Interest Rate	Initial Amount	Outstanding debt current	Outstanding debt non current	Outstanding total debt	Principal repayment frequency	Expiry Date
BNL	5.90%	150	27	23	50	Monthly	May 2007
Interbanca	4.6%	746	224	149	373	Half-yearly	Dec 2007
Banca Popolare di Todi	4.50%	<u>364</u>	<u>30</u>	<u>222</u>	<u>252</u>	Monthly	May 2012
Banca Popolare di Todi	Euribor a 3 m +0,95%	<u>2,100</u>	<u>221</u>	<u>1,879</u>	<u>2,100</u>	Quarterly	Mar 2015
BNL	Euribor a 6 m +1,50	<u>4,000</u>	<u>500</u>	<u>3,500</u>	<u>4,000</u>	Half-yearly	Jan 2010
BANCA INTESA	Euribor a 1 m +1,50	<u>2,000</u>	<u>790</u>	<u>889</u>	<u>1,679</u>	Monthly	Jan 2008
IBM	7,87%	<u>226</u>	<u>46</u>	<u>135</u>	<u>181</u>	Monthly	2010
IBM	7,87%	<u>76</u>	<u>15</u>	<u>49</u>	<u>64</u>	Monthly	2010
IBM	7,87%	<u>302</u>	<u>60</u>	<u>212</u>	<u>272</u>	Monthly	2010
IBM	6,70%	<u>462</u>	<u>92</u>	<u>347</u>	<u>439</u>	Monthly	2010
IBM	5,99%	<u>148</u>	<u>30</u>	<u>111</u>	<u>141</u>	Monthly	2010
IBM	5,99%	<u>47</u>	-	<u>47</u>	<u>47</u>	Monthly	2010
ERACLE (*)	7%	<u>9,580</u>	-	<u>9,563</u>	<u>9,563</u>	At maturity	2012
		<u>20,201</u>	<u>2,035</u>	<u>17,126</u>	<u>19,162</u>		
Lease creditors			1,217	3,089	4,306	Monthly	
Total			<u>3,253</u>	<u>20,215</u>	<u>23,468</u>		

Terms and debt repayment schedule

<i>in thousands of euro</i>	Outstanding debt	1 year or less	1-2 Years	2-5 years	More than 5 years
<i>Bank loans:</i>					
2,464 (secured)	<u>2,352</u>	<u>251</u>	<u>251</u>	<u>753</u>	<u>1,097</u>
17,737 (not secured)	<u>16,809</u>	<u>1,784</u>	<u>2,282</u>	<u>3,180</u>	<u>9,563</u>
Total	<u>19,161</u>	<u>2,035</u>	<u>2,533</u>	<u>3,933</u>	<u>10,660</u>

The aforementioned secured loan has as collateral the Company's land and buildings.

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(*) This item relates to a subordinate loan issued to the Company on 8 December 2005 by ERACLE (underwriter for Credit Suisse) for a net consideration of €9,580,000, following the signing of the loan agreement between the concerned parties on 5 December 2005. This financing is not guaranteed on any of the Company's assets. In case of insolvency or bankruptcy, the aforementioned loan would be subordinate to the repayment of all other Company creditors.

The Company intends to use this loan to satisfy future investments and corporate expansion. The loan agreement stipulated the following terms:

- A fixed interest rate of 7% per annum on the principal of the loan
- A variable spread between 0.00% and 1% on the principal of the loan calculated on a yearly basis in relation to the Company's economic performance

The principal on the loan is to be repaid all at once at maturity.

21 Employee benefits

<i>in thousands of euro</i>	2005	2004
Balance at 1 January	119	58
Charge for the year	120	61
Payments	<u>(32)</u>	-
Balance at 31 December	207	119

Throughout 2004 and 2005 certain share options have been granted to some managers.

The terms and conditions of the grants are as follows, whereby all options are settled by physical delivery of shares:

Grant date/Employees entitled	Number of options	Vesting conditions	Contractual life of options
Option grant to key management at 1 January 2005	1,120,466	24 months of service	7 years
Option grant to key management at 1 January 2006	4,240,932	24 months of service	-

The number and weighted average exercise prices of share options is as follows:

	Weighted average exercise price (£/100)	Number of options 2005
Outstanding at the beginning of the period	17.02	1,120,466
Granted during the period	20.27	3,120,466
Outstanding at the end of the period	<u>19.41</u>	<u>4,240,466</u>
Exercisable at the end of the period	<u>-</u>	<u>-</u>

Vesting conditions will expire in 2006 and 2007.

The options outstanding at 31 December 2005 have an exercise price in the range of GBP 0,1642 to GBP 0,2367.

22 Provisions

Provisions relate principally to a reasonable estimate of the outcome of litigation and other contingent liabilities. During 2004 the Company, as well as many other carriers providing Premium Access services, received a fine from the postal authority relating to the services offered in the amount of €500,000. In relation to this issue the courts have acknowledged Teleunit's contestation and have suspended the fine. Despite the optimistic view of the outcome and due to the opinion of our legal consultants the Company has not reversed the provision of €100,000 made last year.

It should be noted that in the course of 2005, the Company has been subject to an audit by the local Tax Authority in regards to fiscal year 2003. Following this audit, the auditors issued a report highlighting one particular issue.

The Company, having assessed the report and obtained the opinion of its fiscal advisor, holds that The contingent liability arising from this issue, amounting to €706,490, is not considered probable and therefore has not proceeded to set aside a provision concerning this matter.

23 Bank overdrafts

Overdrafts and advance accounts as at 31 December 2005 amount to €8,106,000 and refer to bills and invoices presented to banks for collection, with a maturity date immediately after the balance sheet date. The overdraft facility is used mainly in order to satisfy cash management needs.

24 Trade and other payables

<i>in thousands of euro</i>	2005	2004
Trade payables due to associates	12	-
Other trade payables	8,273	7,377
VAT payables	-	-
Directors' fees	-	-
Other non-trade payables	986	1,418
Total	<u>9,271</u>	<u>8,795</u>

The increase in 'Other trade payables' relate, in addition to payables arising from normal operations, to a €1.4 million payment pending for the MCS division and an €858,000 payment pending for PA. These payables have since been paid.

25 Income tax payable

This refers to taxes payable on the income for the year. These taxes refer to, for the year ended 31 December 2005, IRAP for €297,000 (2004: €253,000) and IRES for €1,279,000 (2004: €263,000). These amounts are gross of taxes paid throughout the year and represent the full taxable amount. The amount stated in the balance sheet at 31 December 2005 is net of taxes paid throughout the year.

26 Commitments and guarantees

Derivative financial instruments

in thousands of euro

Bank	Notional value
Banca Nazionale del Lavoro	516

All contracts recognised in the 2004 financial statements have expired in 2005 and there are no outstanding derivatives financial instruments at year-end 2005.

27 Credit risk cash flow, interest rate risk and foreign currency risk

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Under this policy, investments are made only in liquid securities or financial assets.

At the balance sheet date of 31 December 2005 the only material concentration of credit risk was with Telecom Italia S.p.A. ("Telecom Italia"), the main client of the Company; the Company cashed a significant part of the balance with Telecom Italia after the balance sheet date.

The potential credit risk at balance sheet date refers mainly to the two following items:

- Trade receivables include receivables under dispute with Telecom Italia, with reference to certain anomalies encountered in the quantification of the volume of phone calls, or differences in tariffs applied to that volume, for a total amount of €6,671,699.61. While the company is continuing to run its ordinary business with Telecom Italia, having not received from the counterpart finally information on this receivable has filed and injunction to obtain forced payment from the court. Based on the Company's request on 26 January 2006, the Rome courts have placed an injunction on Telecom Italia to pay the above owed amount, plus any interest (that have not been accrued in the statements) and expenses incurred to collect this amount. Telecom Italia has opposed the aforementioned injunction by the legal terms. Based on the contractual agreement with Telecom Italia, and based on the opinion of the Company's external legal counsel, the Company holds that it has the legal right to collect the full aforementioned amount and, consequently, it has not recorded an allowance for such accounts receivable in the financial statements for the year ended 31 December 2005.
- In addition subsequent to the termination of a specific clause in the contract with Telecom Italia, the Company now bears the collection risk of certain amounts invoiced by Telecom Italia to the end users. In particular, in 2005, Teleunit decided not to renew the clause that ended on 31 December 2004 with Telecom Italia relative to the insolvency management service for non-geographic numbers (in relation to the Premium Access division). This clause provided for Telecom Italia to charge Teleunit a fee equal to 3.1% of revenues generated in order for it to assume the risk of uncollectible

receivables from end clients. The termination of this clause thus automatically puts into play the rules defined by the Communications Authority (AGCom) according to which Teleunit is to fully bear the collection risk for receivables. In line with these rules, Teleunit requested from Telecom Italia a detailed list of uncollectible receivables and all accompanying documentation needed for it to proceed, as defined by AGCom rules, with their direct collection through the Company's legal office.

The Company does not currently have got detailed information as to the amount of outstanding receivables of Telecom Italia with the end users, and, consequently, is unable to estimate the related contingent liability in the financial statements for the year ended 31 December 2005. Consequently a contingent liability, which currently cannot be realistically calculated, exists on a portion of the total turnover generated through Telecom Italia in the Premium Access division, which in 2005 amounted to €58,720,731. The Company also highlights that its past success in collecting overdue receivables is very strong, historically resulting in only an insignificant loss over the amount originally owed for similar services rendered.

Cash flow interest rate risk

The company is primarily exposed to cash flow interest rate risk arising from its long-term borrowing at variable rates as disclosed in note 20.

Foreign currency risk

The company operates substantially in Europe and is not exposed to foreign exchange risk on other currencies.

28 Contingent assets and liabilities

Article 11 D.L. 269/2003 introduced a tax benefit for companies quoted between 2 October 2003 and 31 December 2004 on any regulated market of a European Union member state, whereby these companies could benefit from a lower yearly tax rate of 20% for the period in which they became listed and for the two subsequent periods.

Through a decision reached on 16 March 2005, the European Commission decreed that such benefit was incompatible with the common market and therefore imposed the recovery of such benefit. The Italian government did not oppose these terms within the permitted period and is thus subject to them.

Given that the revocation of such benefit was evidenced only in the UNICO 2006 report (instructions on the preparation of local tax return for the fiscal year to 2005), the Company has adopted for the year 2005 a position on the calculation of taxes that differs from the one used in 2004. In 2005 IRES has been calculated at a rate of 33% whilst in 2004 the rate used was 20 per cent; this has been done for the following reasons:

- At the time of preparation of the 2004 financial results, the application of the benefit was specifically provided for by the UNICO 2005 (instruction of the preparation of local tax return for the fiscal year 2004) even if the contents of the European Commission decision were mentioned.

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In preparing the financial statement for the year ended 31 dec. 2004 the shareholders in approving the financial statements deliberated to set aside an amount of net profit corresponding to the difference between the two tax rates to a non distributable equity reserve.

- In preparing the financial statement for the year ended 31 December 2005, the Company has thought it prudent to set aside a liability representing the difference between the IRES tax rate of 33% and 20%, and pays taxes using 20% rate only on net result for 2005.

With reference to the tax benefit referred to in the 2004 financial results, due to the lack of firm obligations and in consideration of all other information available, the Company has thought it appropriate to not set aside a liability which accounts for the difference between the two tax rates. Therefore an amount of €736,358 has been set aside as a reserve in net equity.

In the event that the local Tax Authority requests the difference between the two tax rate, this could be generate a contingent liability of approximately €500,000.

In the event that the local Tax Authority requests the difference representing the 2004 contingent liability and 2005 reserve, the Company intends to lodge a formal legal claim.

29 Related party transactions

Transactions with subsidiaries and associates

<i>in thousands of euro</i>	Pro Advertising srl	TLT Net S.r.l.	Starline S.p.A.	Voimax S.r.l.
Trade receivables	-	18	-	-
Financial receivables	-	-	319	-
Trade payables	10	-	-	2
Revenues	-	15	-	-
Costs	11,531	-	2,868	1,618

Costs relating to Telesolution S.p.A. and TLT Net S.r.l. are for services rendered by these two companies for call centre services and for information technology services.

Costs relating to Pro Advertising S.r.l and Starline S.p.A. are for contents provided by these company in relation to the contract agreement described in note 11.

30 Other information

The Company has granted an option to Market Capital to purchase new Ordinary Shares representing two per cent. (2%) of the issued share capital of the Company at the date of Admission. The option may be excercised by Market Capital at any time in the two years following admission at a price per Ordinary Share equal to the Placing Price. The option expires on May, 24th 2006 and the current market price of the Teleunit

shares is significantly below the Placing Price. Consequently the Directors believe this option will not be exercised and do not affect the presentation of these financial statements.

31 Subsequent events

On 3 February 2006 the Company bought back 400,000 shares at 17p each for eventual cancellation.

On 14 February 2006 the Company announced that it would be paying a maiden dividend of 1 eurocent per share. This dividend was paid to shareholders on 16 February 2006.

On 13 February 2006 the shareholders meeting resolved to increase the compensation of the Directors from €200,000 to €265,000.

On 20 February 2006 the Company announced that the Board had given final approval for expansion of MCS to Turkey. The new subsidiary fully-owned by Teleunit is called "Teleunit İletişim Hizmetleri ve Ticaret Şti" (Teleunit Telecommunications Services and Trading Ltd). The new subsidiary's first day of operations was on the 27th of March 2006.

On 3 April 2006 Mr. Silvio Arienti joined Teleunit as Chief Financial Officer. Mr Arienti brings to Teleunit over 10 years of experience in the financial sector.

In mid-march the Company opened a new branch office in Rome. This office will be used principally for Italian expansion of MCS operations, and for further support of overall Teleunit operations.

The Chief Executive Officer

10 April 2006
