

10 May 2006

Pointing to the Top

Exprivia aims at becoming one of the top ten Italian independent players in the IT sector, by doubling its size in the next three years, through both organic and external growth.

- Group profile.** Exprivia is the new entity born from the merger between Aisofware and Abaco, integrating the software (SW) proprietary solutions of the former with the system integration services of the latter, with no overlapping in terms of customers and geographical presence. The group mainly operates in four sectors: 1) banking & finance (approx. 20% of 2005 sales); 2) industrials & telecoms (31% of sales); 3) PA, utilities & services (30% of sales); and 4) healthcare (13% of sales).
- Strategy.** The business plan aims at more than doubling the group's size by 2008 to €100mn sales. According to management, this is the minimum amount in order to continue to be competitive in the Italian market and represents a solid base for possible expansion abroad. The business plan is based on organic growth, which should generate approx. €60mn sales by 2008, and acquisitions, contributing with the remaining €40mn. The EBITDA margin is targeted at 16.5-17% in 2008. Possible acquisition targets include small SW companies (up to €5mn sales) or larger system integrators (€15-20mn revenues). External growth should be financed by: 1) operating cash flow of approx. €11mn over the next three years; 2) financial leverage (€20mn additional financial resources, assuming 3x as a sustainable net debt/EBITDA ratio in 2008); and 3) new equity (capital increase or paper-on-paper acquisitions).
- Valuation and estimates.** Our estimates are based on only organic growth. We see a revenue growth of approx. 8% (in line with the group targets), but we are slightly more conservative on margins, with an EBITDA margin of approx. 16% in the long term. We are also more conservative on cash flow generation, mainly due to our higher working capital absorption. We valued Exprivia with a discounted cash flow model based on our estimates to 2008E and on the following mid-term assumptions to 2013E: 1) sales growth to gradually decline from approx. 8% in 2008E to 2%, a level that we assumed as perpetuity growth rate; 2) the EBITDA margin stable at 16%; and 3) a full tax rate from 2010E onwards. We used a WACC of 8.4%, based on the group's current gearing. We used a particularly high beta of 1.4x, based on the average unlevered beta of a number of European peers and adjusted for the group's gearing. We initiate coverage with a DCF-based fair value of €1.34/share.

Italy - IT & Technology

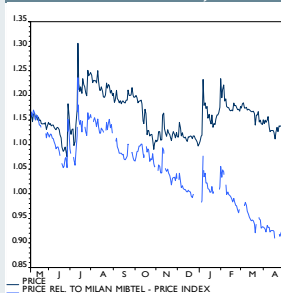
Initiation of Coverage

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Price Performance, -1Y



Source: Datastream

| Exprivia - Estimates and Key Ratios (2004-08E) | | | | | | |
|--|-----|-------|-------|-------|-------|-------|
| December Y/E | | 2004 | 2005 | 2006E | 2007E | 2008E |
| Sales | €mn | 23.1 | 43.0 | 51.2 | 55.2 | 59.5 |
| EBITDA | €mn | 0.0 | 2.6 | 6.6 | 8.6 | 9.6 |
| EBIT | €mn | -5.0 | -0.6 | 3.4 | 5.4 | 6.5 |
| Net profit | €mn | -8.0 | -2.7 | 1.4 | 3.5 | 4.7 |
| Adj. EPS | € | -0.5 | -0.1 | 0.0 | 0.1 | 0.1 |
| DPS | € | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Adj. P/E | x | NM | NM | 26.4 | 10.7 | 8.0 |
| EV/EBITDA | x | NM | 19.1 | 7.4 | 5.7 | 5.1 |
| P/BV | x | 12.8 | 1.4 | 1.3 | 1.2 | 1.0 |
| Dividend yield | % | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| ROI | % | -43.0 | -2.7 | 8.7 | 13.7 | 16.3 |
| ROE | % | NM | -19.0 | 5.1 | 11.6 | 13.5 |
| D/E | % | 553.4 | 39.3 | 38.1 | 22.6 | 8.5 |

Source: Company data and Banca IMI estimates

Basic Figures

| | | | |
|--------------------|----------------|------|-------|
| Current price (€) | 1.11 | | |
| Market cap. (€mn) | 37.8 | | |
| No. of shares (mn) | 33.9 | | |
| 52-week range (€) | 1.31-1.1 | | |
| Major shareholder | Abaco, | | |
| (%) | 57.0 | | |
| Free float (%) | 38.0 | | |
| Reuters | XPR.MI | | |
| Bloomberg | XPR IM | | |
| Mibtel | 29896 | | |
| Performance % | | | |
| Absolute | Rel. to Mibtel | | |
| -1M | -3.3 | -1M | -4.7 |
| -3M | -6.8 | -3M | -12.8 |
| -12M | -3.6 | -12M | -22.7 |

Source: Company data and Datastream

See Page 20 for Full Disclosures and Analyst Certification

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This document is priced at the close of market on 8 May 2006.

Positives and Negatives

Main Strengths

Aisofware and Abaco are complementary in terms of products and services offered, vertical markets (Aisofware specialises in the banking and healthcare sectors, whereas Abaco is stronger on PA, services and industrial sectors) and customers, with limited overlapping. This could offer the opportunity of cross selling between the two companies within the new Exprivia group.

Cross-selling opportunities

The merger of the two companies widens the offering in a number of segments, as the system integration services are provided by Abaco and the proprietary SW platforms are developed by Aisofware. For example, we see major advantages in the banking sector, where the sale of SW platforms for trading rooms could be coupled with outsourcing and management services.

Enrichment of products and services range

The merger should also generate costs savings, especially on G&A expenses. The new group plans to take on restructuring measures during the year, which should generate approx. €1mn costs savings, annually.

Costs savings

Lastly, we highlight that the highly fragmented Italian IT market could offer external growth opportunities at reasonable prices. The group aims at buying smaller companies at lower multiples than Exprivia. Therefore, acquisitions should result accretive to EBITDA multiples.

Acquisition should be at accretive multiples

Main Risks

Management plans to reach an EBITDA margin of approx. 16.5-17% in 2008. We believe the target to be ambitious, considering the profitability of other companies in the sector. For example, Engineering posted a 2005 EBITDA margin of 15.2% (adjusted for dividends to employees) and Reply a 14.6%. A recovery in the IT market could ease pressure on prices and boost profitability. However, Exprivia's size is significantly smaller than the aforementioned competitors, therefore, economies of scale are likely to be lower. A higher profitability could be reached thanks to a higher percentage of proprietary SW solutions (a high-margin activity), although SW products sales (Aisofware's business) have suffered the most in recent years.

Margin recovery could be lower than expected

The business plan entails an important external growth policy via acquisitions, which should account for 40% to the 2008 top line. As aforementioned, external growth is a major opportunity for the group, but we see two major risks: 1) the group's financial capabilities: net debt at 2005-end amounted to €10.8mn, corresponding to a 4.2x net debt/EBITDA ratio. Assuming as sustainable a net debt/EBITDA ratio of 3.0x in the mid term, net debt could reach €30mn by 2008, based on the targeted €10.2mn EBITDA. Thus, the group could raise almost €20mn additional financial resources. However, we believe that these additional resources are not enough to complete the ambitious acquisition plan. Therefore, in our view, the issue of new equity could be likely; and 2) the execution risks, as the group does not have a solid and visible track record on acquisitions.

External growth

Valuation

In our valuation, we used a discounted cash flow (DCF) model, coupled with a peer comparison analysis. Our model points to a fair value of €1.34/share.

Our fair value is €1.34/share

DCF Model

We used a three-stage DCF model, based on:

A three-stage DCF model

- Our explicit estimates to 2008E;
- Mid-term estimates on revenue growth declining from approx. 8% in 2008E to 2% in 2013E, a level that we assumed as perpetuity growth;
- A mid-term EBITDA margin to remain stable at 16%;
- Tax benefits from losses carried forward to YE09E and full taxation to return (IRES+IRAP) from 2010E;
- NWC to remain stable at 14% of revenues, in line with the value of 2008E.

We used a WACC of 8.4%, based on the group's current gearing. We used a particularly high beta of 1.4x, based on the average unlevered beta of a number of European peers (adjusted for the group's gearing), which we believe reflects the risks of the business plan.

| WACC Calculation (%) | |
|------------------------------|-------------|
| Risk-free rate (10Y bond) | 4.5 |
| Risk premium | 4.0 |
| Beta (x) * | 1.4 |
| Cost of equity | 10.1 |
| Tax shielded cost of debt | 4.0 |
| Financial structure (D /E+D) | 28.0 |
| WACC | 8.4 |

*JCF Source: Banca IMI estimates

The tables below summarise our DCF model, which point to a fair value of €45.5mn, corresponding to €1.34/share.

| DCF Model (2006E-13E) | | | | | | | | |
|----------------------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|
| €mn | 2006E | 2007E | 2008E | 2009E | 2010E | 2011E | 2012E | 2013E |
| Revenues | 51.24 | 55.18 | 59.49 | 63.43 | 66.91 | 69.80 | 72.00 | 73.44 |
| yoy growth (%) | 19.3 | 7.7 | 7.8 | 6.6 | 5.5 | 4.3 | 3.2 | 2.0 |
| EBITDA | 6.59 | 8.58 | 9.58 | 10.15 | 10.71 | 11.17 | 11.52 | 11.75 |
| EBITDA margin (%) | 12.9 | 15.5 | 16.1 | 16.0 | 16.0 | 16.0 | 16.0 | 16.0 |
| Taxes on EBIT | -1.20 | -1.34 | -1.48 | -1.60 | -4.36 | -4.58 | -4.74 | -4.84 |
| Provision | 0.29 | 0.31 | 0.33 | 0.26 | 0.20 | 0.13 | 0.07 | 0.0 |
| Change in NWC | -2.00 | -0.63 | -1.09 | -0.61 | -0.49 | -0.40 | -0.31 | -0.20 |
| Capex - acquisitions | -2.70 | -2.26 | -2.35 | -2.42 | -2.49 | -2.57 | -2.64 | -2.72 |
| Operating cash flow | 0.98 | 4.65 | 4.99 | 5.78 | 3.56 | 3.75 | 3.89 | 3.98 |

Source: Banca IMI estimates

| DCF Model Valuation (€mn) | |
|----------------------------|-------------|
| Perpetuity growth rate (%) | 2.0 |
| Terminal value | 62.3 |
| PV of terminal value | 32.7 |
| PV of cash flows | 23.8 |
| EV | 56.5 |
| NFP 2005 | -10.8 |
| Minorities | -0.2 |
| Equity value | 45.5 |
| No. of shares (mn) | 33.9 |
| Value per share (€) | 1.34 |
| Vs. current price (%) | 20.5 |

Source: Banca IMI estimates

The table below shows the sensitivity analysis of the fair value to changes in the WACC and perpetuity growth rate.

| DCF Model Sensitivity Analysis | | | | | | | |
|--------------------------------|-------------------------------|------|------|-------------|------|------|------|
| €/share | Growth rate to perpetuity (%) | | | | | | |
| | Discount rate | 0.5 | 1.0 | 1.5 | 2.0 | 2.5 | 3.0 |
| 6.4 | 1.64 | 1.75 | 1.88 | 2.05 | 2.26 | 2.53 | 2.89 |
| 6.9 | 1.49 | 1.58 | 1.69 | 1.82 | 1.98 | 2.18 | 2.44 |
| 7.4 | 1.36 | 1.44 | 1.53 | 1.63 | 1.75 | 1.91 | 2.10 |
| 7.9 | 1.25 | 1.32 | 1.39 | 1.47 | 1.57 | 1.69 | 1.84 |
| 8.4 | 1.16 | 1.21 | 1.27 | 1.34 | 1.42 | 1.52 | 1.64 |
| 8.9 | 1.07 | 1.12 | 1.17 | 1.23 | 1.30 | 1.37 | 1.47 |
| 9.4 | 1.00 | 1.04 | 1.08 | 1.13 | 1.19 | 1.25 | 1.33 |
| 9.9 | 0.93 | 0.97 | 1.00 | 1.05 | 1.09 | 1.15 | 1.21 |
| 10.4 | 0.87 | 0.90 | 0.94 | 0.97 | 1.01 | 1.06 | 1.11 |

Source: Banca IMI estimates

Peer Comparison

We compared Exprivia with two other IT systems companies listed in Italy, Engineering and Reply, which are both larger, especially the former.

| Engineering (2004-07E) | | | | |
|------------------------|-------|-------|-------|-------|
| €mn | 2004 | 2005 | 2006E | 2007E |
| Sales | 334.8 | 386.9 | 435.4 | 469.9 |
| EBITDA | 50.1 | 55.0 | 63.0 | 69.1 |
| EBITDA margin (%) | 15.0 | 14.2 | 14.5 | 14.7 |
| EBIT | 35.3 | 45.3 | 49.2 | 55.5 |
| EBIT margin (%) | 10.5 | 11.7 | 11.3 | 11.8 |
| Net profit | 15.3 | 19.9 | 23.0 | 26.4 |
| Net margin (%) | 4.6 | 5.1 | 5.3 | 5.6 |

Source: Banca IMI estimates

| Reply (2004-07E) | | | | |
|-------------------|-------|-------|-------|-------|
| €mn | 2004 | 2005 | 2006E | 2007E |
| Sales | 112.0 | 144.5 | 208.2 | 229.2 |
| EBITDA | 14.2 | 20.9 | 27.6 | 31.6 |
| EBITDA margin (%) | 12.6 | 14.5 | 13.3 | 13.8 |
| EBIT | 12.0 | 18.6 | 24.2 | 28.0 |
| EBIT margin (%) | 10.7 | 12.9 | 11.6 | 12.2 |
| Net profit | 4.7 | 7.8 | 10.5 | 12.0 |
| Net margin (%) | 4.2 | 5.4 | 5.0 | 5.2 |

Source: Jcf consensus

The multiples comparison shows that Exprivia is currently trading at a premium on 2006E multiples. In 2007E, Exprivia is basically in line with peers on EV/EBITDA and at a discount on P/E. Note that the multiples comparison does not fully reflect the growth potential of Exprivia because benefits from the integration, especially in terms of profitability, should be visible in the medium term.

| Multiples Comparison (2005-07E) | | | | | | | | | | | | | | |
|---------------------------------|-----------------|-------|-------------|-------------|-------------|------------|------------|------------|------------|------------|------------|-------------|-------------|-------------|
| x | Price Mkt. cap. | | EV/sales | | | EV/EBITDA | | | EV/EBIT | | | P/E | | |
| | (€) | (€mn) | 2005 | 2006E | 2007E | 2005 | 2006E | 2007E | 2005 | 2006E | 2007E | 2005 | 2006E | 2007E |
| Reply | 21.5 | 181.3 | 1.02 | 0.88 | 0.77 | 7.0 | 6.6 | 5.6 | 7.9 | 7.6 | 6.3 | 23.9 | 17.8 | 15.5 |
| Engineering * | 32.8 | 410.1 | 1.06 | 0.94 | 0.87 | 7.5 | 6.5 | 5.9 | 9.1 | 8.3 | 7.4 | 20.6 | 17.9 | 15.6 |
| Avg. peer group | | | 1.04 | 0.91 | 0.82 | 7.2 | 6.6 | 5.8 | 8.5 | 8.0 | 6.8 | 22.2 | 17.8 | 15.6 |
| Exprivia * | 1.11 | 37.8 | 1.13 | 0.95 | 0.88 | 19.1 | 7.4 | 5.7 | NM | 14.4 | 9.0 | NM | 26.4 | 10.7 |
| Vs. avg. peer group (%) | | | 9.2 | 4.5 | 7.7 | 163.5 | 12.5 | -1.2 | NM | 81.2 | 31.1 | NM | 48.0 | -31.5 |

Source: Jcf consensus and *Banca IMI estimates

Group Profile

Aisoftware and Abaco Merged to Create Exprivia

Aisoftware (Artificial Intelligence Software) specialises in developing technological and sophisticated software solutions. The business model is mainly based on the sale of SW licences and maintenance services of its own solutions, operating in three key segments:

- **Banking:** the range includes two main products: SW platform for trading rooms and a software solution for creditworthiness and credit risk management;
- **Healthcare:** specialising in SW for medical digital imaging;
- **Technologies and solutions:** include the realisation of IT projects, using highly sophisticated SW solutions.

After having embarked on restructuring measures, with the sale of a series of non-core assets, the 2004 EBITDA margin turned to profit, although the bottom line remained negative.

| Aisoftware Results (2002-04) | | | |
|------------------------------|-------|-------|-------|
| €mn | 2002 | 2003 | 2004 |
| Sales | 32.4 | 28.1 | 23.1 |
| yoy change (%) | NA | -13.4 | -17.7 |
| EBITDA | -5.9 | -2.8 | 0.4 |
| EBITDA margin (%) | -18.1 | -10.0 | 1.5 |
| Net profit | -22.6 | -10.5 | -8.0 |

Source: Company data

Abaco is a system integrator operating in a wide range of vertical markets (eg, industrial, finance, PA, and telecom), mainly installing third-party products and SW platforms (eg, SAP and Oracle). The services are divided into two main categories:

- **Project:** the development and realisation of SW solutions and applications;
- **Managed:** mainly outsourcing services for the management of hardware and SW systems.

Abaco posted significant revenue growth in the recent years, with an EBITDA margin, which, although declining, remained at the top-end of the IT services sector.

| Abaco Results (2002-04) | | | |
|-------------------------|------|------|------|
| €mn | 2002 | 2003 | 2004 |
| Sales | 12.6 | 13.5 | 23.2 |
| yoy change (%) | NA | 7.8 | 71.4 |
| EBITDA | 2.3 | 2.2 | 3.6 |
| EBITDA margin (%) | 17.9 | 16.6 | 15.4 |
| Net profit | 1.4 | 1.0 | 1.3 |

Source: Company data

The reverse merger

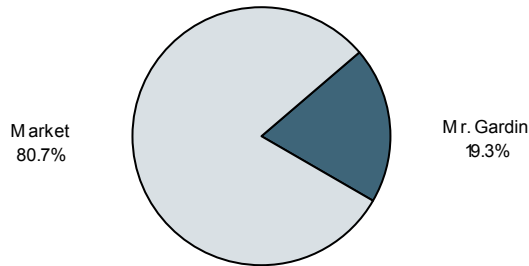
The integration between Aisoftware and Abaco took place in 2005, via a reverse merger. In detail, the parent company of Abaco transferred all of its operating activities into Aisoftware, except for the stakes in two companies (51% in Infobyte and 100% in Network Services). In exchange for the assets, Aisoftware issued 18.43mn new shares, thus raising its share capital from the previous 15.5mn shares to 33.9mn shares. Abaco controls a 57% stake of the new entity, Exprivia, while the previous Aisoftware shareholders (Mr Gardin and market) diluted their stakes. The current free float amounts to approx. 38%.

Aisoftware, a SW house listed on the Italian stock exchange, merged with...

...Abaco, a system integrator

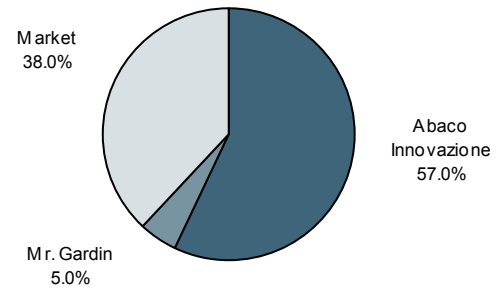
Abaco Innovazione is now the major shareholder

Pre-Merger Shareholder Structure



Source: Company data

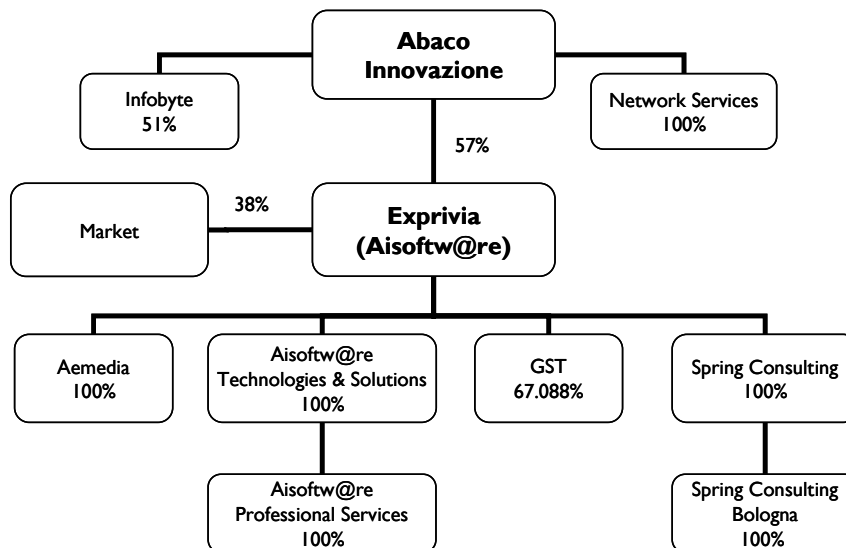
Post-Merger Shareholder Structure



Source: Company data

In addition to the reverse merger, Aisofware incorporated two other 100% controlled companies in order to simplify the group structure (see the following chart).

Group Structure



Source: Company data

Exprivia's management includes:

- The Chairman Mr Gardin, the major shareholder and chairman of the former Aisofware;
- The CEO Mr Favuzzi, one of the main shareholders of the Abaco group;

The board comprises seven members, of which two are independent.

The new offering

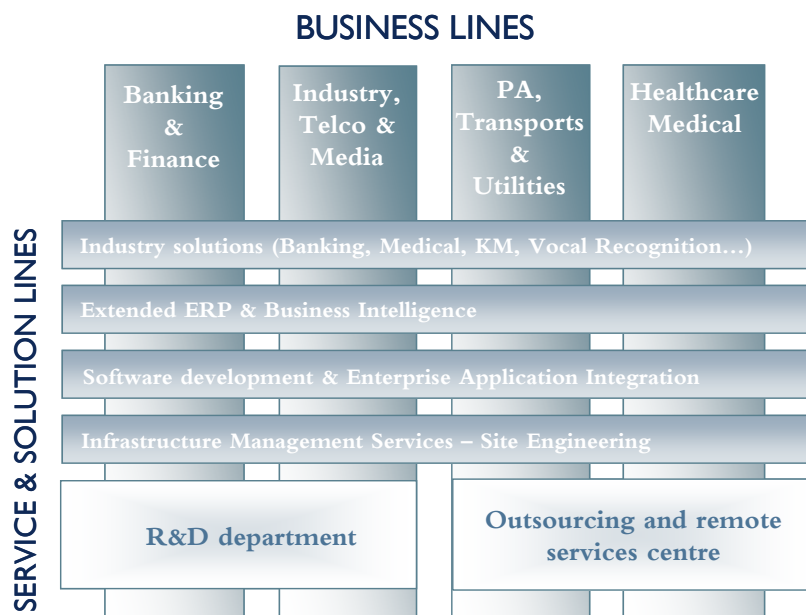
The new operating structure integrates the two companies' expertise, with the new offering split into four sectors: 1) banking and finance (approx. 20% of sales); 2) industrials and telecom (31% of sales); 3) public administration, utilities and services (30% of sales); and 4) healthcare and medical sector (13% of sales). The product range is dividend into four lines:

Four segments of activity

- **SW solutions:** the group's proprietary solutions mainly in banking (credit risk control and trading room platforms) and medical sectors. A number of SW solutions could be used across the various segments. For example, the group develops a SW for vocal recognition in medical applications (ie, dictation of medical reports), which could be transferred into the PA segment (eg, for automatic verbalisation of parliament meetings);
- **Extended ERP and business intelligence:** the system integration services for the installation of ERP or other SW solutions (eg, SAP and Oracle);
- **SW development:** the service of personalising SW applications based on the single customer's needs;
- **Infrastructure management:** the consulting and outsourcing services for the realisation of IT systems (including hardware and SW applications).

The group counts on a total workforce of approx. 650 employees (580 of which are technicians) and 6 operating branches in Italy. The headquarters are located in Molfetta, in the Puglia region (South of Italy), and include R&D and training centres. The group also completed a new centre for remote outsourcing services (eg, help-desk, monitoring of IT systems and upgrading of SW applications). Therefore, remote assistance should complement and partly replace the more traditional on-site services.

Exprivia Operating Structure

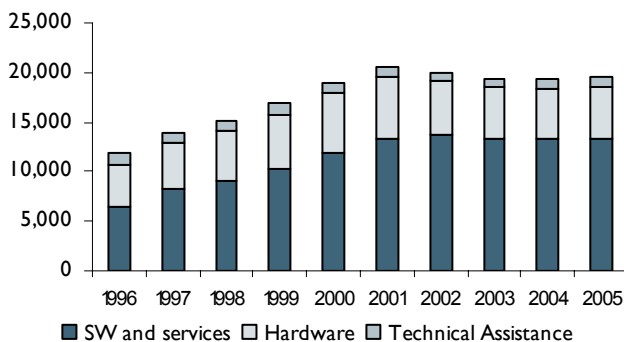


Source: Company data

Market Analysis

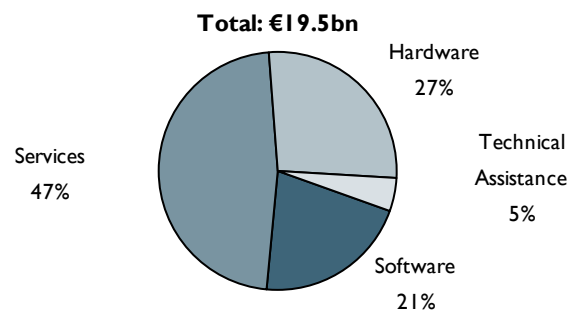
According to Assinform, the Italian IT market was worth approx. €19.5bn in 2005. Hardware sales account for €5.3bn (27% of total), while software and services account for €4.1bn and €9.3bn, respectively. The market was buoyant until 2001, when it reached its peak of €20.5bn (+8% yoy). After that, it started declining, hit by the general sluggish economic scenario and the cut in IT investments from many sectors (eg, banking).

The Italian IT Market in €mn (1996-2005)



Source: Assinform

The Italian IT Market (2005)

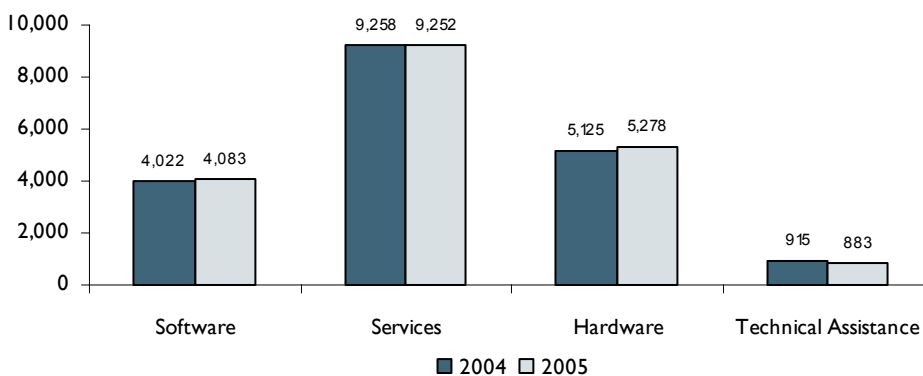


Source: Assinform

The downwards trend ended in 2005: the IT market marginally increased by 0.9%, boosted by hardware sales (up 3.0% yoy). The other segments showed no significant signs of recovery, especially services (down by 0.1% to €9.252bn). According to IDC, the market could show signs of a recovery in 2006 (+2%).

Downwards trend appears to be over

The Italian IT Market (2004-05)



Source: Assinform

Ongoing Consolidation

The poor market conditions have reduced IT service prices, putting pressure on margins. This has forced a series of minor players out of the market and a number of larger competitors to restructure their activities, by either reducing personnel or focusing on specific segments. For example, EDS has focused on outsourcing services, while Getronics halved its workforce in Italy in the last years (approx. 3,500 to 1,700). Nevertheless, the Getronics Italian branch was loss making in 2005 and the Dutch parent company has announced its intention to sell it. The sluggish market has led to a sector consolidation, with many players integrating, in an attempt to increase economies of scale and gain the minimum

Poor market conditions reduced IT service prices, putting pressure on margins

size required to participate in public tenders. In addition to the potential sale of Getronics Italia, we highlight recent significant operations:

- **Elsag - Datamat.** In October 2005, Finmeccanica, the leading Italian player in aerospace and defence, acquired the control of Datamat, listed on the Italian stock exchange. Datamat is a system integrator specialised in aerospace & defence and finance. Datamat is to be integrated with Elsag, Finmeccanica's IT arm, thus creating a major player in the IT sector. While the defence division of the new entity is strategic for Finmeccanica, the finance division could be considered non-core (a sale of these activities should not be ruled out).
- **NCH - TAS.** In August 2005, NCH, a group specialised in SW for banking, especially SW for the management of Automated Teller Machine/Point of Sale services (ATM/POS), acquired the controlling stake of TAS, a SW house specialised in banking, listed on the Italian stock exchange. The deal followed a series of acquisitions completed in 2004, when the NCH group bought the SW companies Viveo, Kento and DS Data System. The new group should post sales of over €60mn.
- **COS - Finsiel.** In June 2005, COS acquired the majority stake of Finsiel from Telecom Italia. The COS group is active in outsourcing services (especially call centres), while Finsiel is one of the major Italian IT groups, mainly active in finance and PA. The new entity is studying the opportunity of a collaboration or integration with Data Service (listed on the Italian stock exchange). Data Service mostly operates outsourcing services for banking.
- **Engineering - Trend.** The Engineering group has been particularly active in acquiring and integrating smaller IT companies. The latest acquisition, completed in 2005, was Trend, a company that groups all the activities in the banking SW segment of the Finmatica group, which went bankrupt.

The Competitive Scenario

The Italian IT market is highly fragmented and can be divided in the following five major categories:

- Global IT vendors and SW companies (eg, IBM, Siemens, Microsoft and SAP) together account for approx. 30% of the market;
- International IT services companies (eg, Accenture, EDS, Atos Origin and Getronics) account for approx. 25% of the market;
- Large independent Italian IT groups (Finsiel, Engineering and Elsag) account for approx. €2mn revenues;
- About 20 Italian players generate approx. €1.5bn sales on captive markets (eg, Cedacri and SIA, which provide IT services to their controlling banks);
- The remaining €2.2-2.5bn of the market is divided amid a large number of small national players (approx. 200), among which Exprivia.

A highly-fragmented Italian IT market

Group Strategy

Despite the larger size reached with the merger, Exprivia is still a relatively small player in the Italian IT market. Management's main target is to increase the group's size and gain critical mass, which could allow the group to: 1) become a credible partner for its bigger clients; 2) improve its structure (from both a financial and operating standpoint); and 3) reach a solid base for expansion abroad. The ambitious goal is to become one of the top ten Italian players within three years, doubling its sales from the current €50mn to €100mn. According to management, this is the minimum amount in order to continue to be competitive in the Italian market. The business plan is based on organic growth, which should generate approx. €60mn sales by 2008, and on acquisitions, contributing with the remaining €40mn.

Gaining size is the major target

Company Targets

Organic growth

Management targets an organic top-line growth of approx. 8% annually, mainly thanks to the cross-selling opportunities from the integration between Abaco and Aisoftware. In detail, the two companies are complementary in terms of: 1) vertical markets, with Abaco being stronger in the industrial, PA and service sectors, and Aisoftware in the banking and healthcare sectors; and 2) products and services; for example, in the banking sector (SW solutions and platforms from Aisoftware and managing and outsourcing services from Abaco).

Organic top-line growth at 8% annually

The organic growth plan also includes a significant boost in profitability: the EBITDA margin should improve from 5.2% in 2005 to almost 17% in 2008. The key drivers for the improvement should be: 1) costs savings from the merger (eg, eliminate duplications in G&A costs); and 2) operational leverage, with fixed costs increasing proportionally less than sales.

| Business Plan (2005-08) | | | | | | |
|-------------------------|--------|----------------|------|------|-------------------|--|
| €mn | 2005PF | Organic growth | | | With acquisitions | |
| | | 2006 | 2007 | 2008 | 2008 | |
| Value of production | 47.6 | 52.4 | 56.7 | 61.4 | 100.0 | |
| yoy change (%) | NM | 10.0 | 8.2 | 8.3 | | |
| EBITDA | 2.5 | 6.8 | 8.3 | 10.2 | 17.0 | |
| EBITDA margin (%) | 5.2 | 13.0 | 14.6 | 16.6 | 17.0 | |

Source: Company data

Acquisitions

Management points to possible targets that would not be dilutive on margins and/or that can be integrated in the group's structure in the short term. Therefore, it aims at maintaining an EBITDA margin (approx. 17%) similar to the level targeted for organic growth. Management indicated two possible kinds of acquisitions:

External growth to add €40mn sales in 2008

- **SW companies**, targeting small companies (up to €5mn sales), which own proprietary SW solutions for niche applications in the core segment (eg, finance or healthcare applications);
- **System integrators**, pointing to larger companies (€15-20mn revenues), complementary geographically and in terms of customers.

Management is focused on acquisitions in the Italian market, where the high fragmentation offers a wide number of opportunities, while expansion abroad could be considered only in the longer term, when the group has reached a larger size.

External growth should be financed by:

- **Operating cash flow:** according to the business plan, excluding acquisitions, NFP should turn positive by end-2008 from a net debt of €10.8mn at end-2005. Thus, the cash generation should exceed €11mn over the next three years;
- **Financial leverage:** net debt amounted to €10.8mn at end-2005, corresponding to a D/E ratio of approx. 40% and a net debt/EBITDA ratio of 4.2x. According to management, in the medium term, the group should point to a net debt/EBITDA ratio of approx. 3.0x, a level that should be sustainable. The projected increase in EBITDA should therefore allow to raise net debt: based on the targeted EBITDA at 2008, net debt could reach €30mn by 2008, implying almost €20mn additional financial resources;
- **New equity:** the current controlling shareholders stated that they are available to dilute their stake in order to favour growth, which could pave the way to paper-on-paper acquisitions or to capital increases to raise fresh cash. We highlight that management should consider this opportunity only for non-dilutive acquisitions, ie, paying multiples that are lower than those of Exprivia.

Considering the average EV/sales multiples of listed system integrators (approx. 1x) and recent acquisitions (ie, Engineering acquired Trend at approx. 2x EV/sales), we believe that the ambitious external growth plan could not be financed only through a higher financial leverage. In our opinion, the recourse to new equity could therefore be very likely.

Competitive Positioning

Competitive Forces

Competitive Forces

Suppliers Power

The group does not depend on key suppliers.

New Entrants

The recent sluggish market and the fragmentation of the offer should prevent new players entering the sector. However, M&A activity among other IT players could reinforce competition.

Rivalry

The sector is highly fragmented: the closest competitors are small and medium-sized national companies (approx. 200).

Substitute Products

The alternative to IT service providers is the in-house production with internal IT departments.

Customer Power

The group does not depend on single customers. The main risk is on the PA segment, where the renewal of contracts is often subject to tender bids.

Source: Banca IMI, Porter model.

SWOT Analysis

Strengths

- Complementary offering between Aisofware and Abaco;
- Highly skilled employees, with both technical IT competences and knowledge of vertical markets in which the group operates;
- R&D capabilities with solid relationships with universities.

Opportunities

- Costs savings from the merger, especially for G&A expenses, and possibility to exploit taxes carried forward;
- Cross-selling opportunities;
- The IT sector could recover after several years of a sluggish market;
- The fragmentation of the Italian IT market offers external growth opportunities.

Source: Banca IMI estimates

Weakness

- A small-sized group;
- Low profitability;
- Lack of solid and visible track record in acquisitions;
- Only national presence.

Threats

- The control of working capital could become an issue, especially if exposure to the PA segment increases;
- Possible price reductions for IT services and SW products;
- The aggregation between large customers (ie, mergers between banks or utilities) could reduce their IT spending.

Earnings Outlook

FY05 Results

The group reported FY05 results, which include the two merged entities only from April 2005. Therefore, for a better comparison, the group reported pro-forma figures for both 2004 and 2005, including Abaco and Aisoftware for the full year. Pro-forma revenue rose by 2.7% to €47.6mn vs. €46.4mn in 2004. EBITDA more than tripled to €2.5mn, with the margin up to 5.2% vs. 1.7%. 2005 EBITDA include approx. €1.5mn one-off costs related to the merger and restructuring process. The EBIT and bottom-line losses reduced to €1.2mn and €3.7mn, respectively. Net debt at YE05 was €10.8mn.

EBITDA tripled to €2.5mn

| Exprivia - FY05 Results | | | |
|-------------------------|--------|--------|------------|
| €mn | 2004PF | 2005PF | yoy change |
| Sales | 46.4 | 47.6 | 2.7 |
| EBITDA | 0.8 | 2.5 | 220.4 |
| EBITDA margin (%) | 1.7 | 5.2 | |
| EBIT | -3.7 | -1.2 | -68.7 |
| EBIT margin (%) | -8.0 | -2.4 | |
| Net profit | -6.4 | -3.7 | -43.1 |

Source: Company data

By segment, sales increased in PA by 26% and in healthcare by approx. 11%, while decreased in the other segments, mainly due to the restructuring of certain activities.

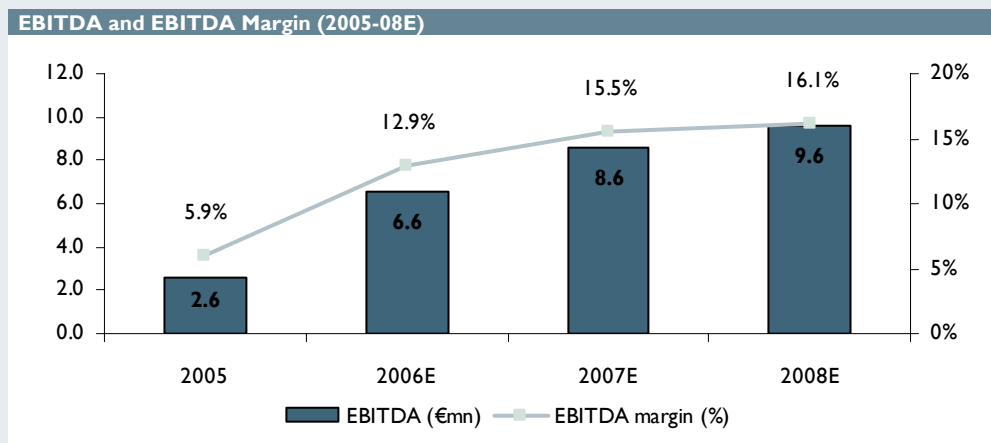
| Exprivia - Revenue Breakdown by Segment (2004PF-05PF) | | | |
|---|-------------|-------------|------------|
| €mn | 2004PF | 2005PF | yoy change |
| Banks | 10.4 | 9.4 | -9.2 |
| Healthcare | 5.5 | 6.1 | 10.8 |
| Industrial & telecoms | 15.7 | 14.9 | -5.3 |
| P.A. | 11.4 | 14.3 | 26.0 |
| Other | 3.4 | 2.9 | -15.3 |
| Total | 46.4 | 47.6 | 2.7 |

Source: Company data

Forecasts

We based our estimates only on organic growth, without including any acquisitions. We expect a top-line growth of approx. 8% annually, in line with the business plan. However, we are slightly more conservative on the profitability improvement and we estimate an EBITDA margin of approx. 16% in 2008E.

We forecast sales in line with business plan, but a more conservative EBITDA



Source: Company data and Banca IMI estimates

The cost-cutting measures (mainly overhead reductions), already booked in 2005 P&L, should generate approx. €1mn savings annually to 2008.

Tax rate

Exprivia benefits from €25mn tax losses carried forward, accumulated by Aisofware in the last three years. We therefore expect the group to pay no IRES for the next four years and to be burdened only by the IRAP. Our long-term assumptions for the DCF model imply a full tax rate from 2010E onwards.

Our long-term assumptions imply a full tax rate from 2010E onwards

Dividends

We expect the group to pay no dividends in the next three years. Given the ambitious growth targets and external growth plan, we believe that cash flows should be set aside to finance possible acquisitions. However, note that: 1) Abaco used to pay dividends to its shareholders, who are now majority shareholders of Exprivia; and 2) the holding company, Abaco Innovazione, injected cash into Exprivia at the time of the reverse merger, financing it with debt. Dividends from the controlled company should therefore be useful to repay the debt. Management confirmed that the group's priority is external growth. However, if suitable target companies are not found, profits could be distributed in order to optimise the financial structure.

We assume no dividends

Capex

The group is currently completing its investment plan, with the construction of the remote services centre, which should provide outsourcing, help-desk and monitoring services. In the upcoming years, investments should be limited to maintenance capex, amounting to approx. €2.0-2.5mn, of which about €1mn should be represented by capitalised R&D costs for the improvements and upgrading of the group's proprietary SW solutions.

Investments should be limited to maintenance capex

Net working capital and debt

Our estimates are more conservative than the business plan in terms of cash generation, mainly due to different assumptions on cash absorption from working capital, which are:

Our working capital assumptions

- Inventories to remain stable as a percentage of sales at 3.5%;
- Days payables to remain stable at 200-210;
- Days receivables to increase, mainly due to longer payment terms from new customers and on new contracts. We therefore expect receivables on additional sales to be approx. 240 days vs. 190 days on revenues on stream.

Consequently, we expect the group to maintain a debt position in 2008E at approx. €3.2mn.

Financials

| Exprivia - Income Statement (2004-08E) | | | | | |
|--|--------------|--------------|--------------|--------------|--------------|
| €mn | 2004 | 2005 | 2006E | 2007E | 2008E |
| Total revenue | 23.11 | 42.96 | 51.24 | 55.18 | 59.49 |
| Cost for services | -7.93 | -13.06 | -15.09 | -15.44 | -16.38 |
| Cost for raw material | -2.35 | -2.17 | -2.82 | -3.04 | -3.27 |
| Others | -1.47 | -1.54 | -1.84 | -1.98 | -2.03 |
| Cost of personnel | -11.34 | -22.43 | -24.90 | -26.15 | -28.23 |
| Non recurring costs | 0.00 | -1.20 | 0.00 | 0.00 | 0.00 |
| EBITDA | 0.02 | 2.55 | 6.59 | 8.58 | 9.58 |
| EBITDA margin (%) | 0.1 | 5.9 | 12.9 | 15.5 | 16.1 |
| Depreciation & amortisation | -4.50 | -2.18 | -2.71 | -2.64 | -2.54 |
| Write-downs & provisions | -0.57 | -1.00 | -0.50 | -0.50 | -0.50 |
| EBIT | -5.05 | -0.62 | 3.38 | 5.44 | 6.54 |
| EBIT margin (%) | -21.8 | -1.4 | 6.6 | 9.9 | 11.0 |
| Financial items | -1.26 | -1.11 | -0.70 | -0.50 | -0.30 |
| Equity investment adjustments | -0.05 | 0.00 | 0.00 | 0.00 | 0.00 |
| Extraordinary items | -1.89 | 0.00 | 0.00 | 0.00 | 0.00 |
| Pre-tax income | -8.24 | -1.74 | 2.68 | 4.94 | 6.24 |
| Taxes | 0.33 | -0.95 | -1.20 | -1.34 | -1.48 |
| Minorities | -0.04 | -0.03 | -0.05 | -0.05 | -0.05 |
| Net income | -7.95 | -2.71 | 1.43 | 3.54 | 4.71 |

Source: Company data and Banca IMI estimates

| Exprivia - Balance Sheet (2004-08E) | | | | | |
|-------------------------------------|--------------|---------------|---------------|--------------|--------------|
| €mn | 2004 | 2005 | 2006E | 2007E | 2008E |
| Intangible assets | 9.57 | 29.51 | 29.18 | 29.29 | 29.21 |
| Tangible assets | 0.29 | 8.11 | 8.43 | 7.94 | 7.83 |
| Financial assets | 0.51 | 1.41 | 1.41 | 1.41 | 1.41 |
| Net fixed capital | 10.37 | 39.03 | 39.02 | 38.64 | 38.45 |
| Inventories | 1.01 | 1.72 | 1.79 | 1.93 | 2.08 |
| Receivables | 13.05 | 25.48 | 27.80 | 29.27 | 31.55 |
| Payables | -5.91 | -11.06 | -10.30 | -10.63 | -11.31 |
| Other current assets | 1.54 | 5.90 | 6.49 | 6.81 | 7.15 |
| Other current liabilities | -9.73 | -17.49 | -19.24 | -20.20 | -21.21 |
| Net working capital | -0.04 | 4.54 | 6.54 | 7.18 | 8.27 |
| Other L/T liabilities | -2.34 | -5.43 | -5.72 | -6.03 | -6.35 |
| Net invested capital | 7.98 | 38.14 | 39.84 | 39.79 | 40.36 |
| Net financial position | -6.76 | -10.77 | -10.99 | -7.34 | -3.15 |
| Group net equity | 1.07 | 27.23 | 28.67 | 32.21 | 36.92 |
| Minorities | 0.15 | 0.14 | 0.19 | 0.24 | 0.29 |
| Net equity | 1.22 | 27.38 | 28.86 | 32.45 | 37.21 |

Source: Company data and Banca IMI estimates

| Exprivia - Cash Flow Statement (2004-08E) | | | | | |
|---|--------------|---------------|--------------|-------------|-------------|
| €mn | 2004 | 2005 | 2006E | 2007E | 2008E |
| Net income | -7.91 | -2.68 | 1.48 | 3.59 | 4.76 |
| Depreciation & amortisation | 4.50 | 2.18 | 2.71 | 2.64 | 2.54 |
| Change in net working capital | 6.55 | 3.93 | -2.00 | -0.63 | -1.09 |
| Change in provisions | -1.22 | 3.08 | 0.29 | 0.31 | 0.33 |
| Operating cash flow | 1.92 | 6.51 | 2.48 | 5.91 | 6.54 |
| Capex | -2.23 | -33.60 | -2.70 | -2.26 | -2.35 |
| Financial acquisitions | -0.15 | 0.00 | 0.00 | 0.00 | 0.00 |
| Free cash flow to firm | -0.46 | -27.09 | -0.22 | 3.65 | 4.19 |
| Share capital increase | 4.05 | 22.64 | 0.00 | 0.00 | 0.00 |
| Dividend payment | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Other | 0.04 | 0.44 | 0.00 | 0.00 | 0.00 |
| Change in NFP | 3.63 | -4.00 | -0.22 | 3.65 | 4.19 |
| Opening NFP | -10.40 | -6.76 | -10.77 | -10.99 | -7.34 |
| Closing NFP | -6.76 | -10.77 | -10.99 | -7.34 | -3.15 |

Source: Company data and Banca IMI estimates

Exprivia – Key Figures (2004-08E)

| | | | | | |
|---|-------------|-------------|--------------|--------------|--------------|
| Current price (€) | 1.11 | | | | |
| No. of shares (mn) | 33.9 | | | | |
| Market capitalisation (€mn) | 37.8 | | | | |
| Enterprise value (€mn) | 48.7 | | | | |
| Values per share (€) | 2004 | 2005 | 2006E | 2007E | 2008E |
| EPS | -0.65 | -0.11 | 0.04 | 0.10 | 0.14 |
| Adj. EPS | -0.50 | -0.11 | 0.04 | 0.10 | 0.14 |
| CEPS | -0.28 | -0.02 | 0.12 | 0.18 | 0.21 |
| BVPS | 0.09 | 0.81 | 0.85 | 0.96 | 1.10 |
| DPS | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Payout (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Stock market ratios (x) | 2004 | 2005 | 2006E | 2007E | 2008E |
| EV/sales | 2.1 | 1.1 | 1.0 | 0.9 | 0.8 |
| EV/EBITDA | NM | 19.1 | 7.4 | 5.7 | 5.1 |
| EV/EBIT | NM | NM | 14.4 | 9.0 | 7.5 |
| EV/FCF | NM | NM | NM | 13.4 | 11.6 |
| P/E | NM | NM | 26.4 | 10.7 | 8.0 |
| Adj. P/E | NM | NM | 26.4 | 10.7 | 8.0 |
| P/CE | NM | NM | 9.1 | 6.1 | 5.2 |
| P/BV | 12.8 | 1.4 | 1.3 | 1.2 | 1.0 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Free cash flow yield (%) | -0.9 | -55.6 | -0.4 | 7.5 | 8.6 |
| Income statement (€mn) | 2004 | 2005 | 2006E | 2007E | 2008E |
| Sales | 23.1 | 43.0 | 51.2 | 55.2 | 59.5 |
| EBITDA | 0.0 | 2.6 | 6.6 | 8.6 | 9.6 |
| EBIT | -5.0 | -0.6 | 3.4 | 5.4 | 6.5 |
| Pre-tax income | -8.2 | -1.7 | 2.7 | 4.9 | 6.2 |
| Net income | -8.0 | -2.7 | 1.4 | 3.5 | 4.7 |
| Adj. net income | -6.1 | -2.7 | 1.4 | 3.5 | 4.7 |
| Balance sheet (€mn) | 2004 | 2005 | 2006E | 2007E | 2008E |
| Net fixed asset | 10.4 | 39.0 | 39.0 | 38.6 | 38.4 |
| Net working capital | 0.0 | 4.5 | 6.5 | 7.2 | 8.3 |
| Other L/T liabilities | -2.3 | -5.4 | -5.7 | -6.0 | -6.4 |
| Net invested capital | 8.0 | 38.1 | 39.8 | 39.8 | 40.4 |
| Net debt/-cash | 6.8 | 10.8 | 11.0 | 7.3 | 3.2 |
| Shareholders' equity | 1.1 | 27.2 | 28.7 | 32.2 | 36.9 |
| Minorities | 0.2 | 0.1 | 0.2 | 0.2 | 0.3 |
| Cash flow (€mn) | 2004 | 2005 | 2006E | 2007E | 2008E |
| Cash income | -3.4 | -0.5 | 4.2 | 6.2 | 7.3 |
| Change in NWC and provisions | 5.3 | 7.0 | -1.7 | -0.3 | -0.8 |
| Total capex | -2.4 | -33.6 | -2.7 | -2.3 | -2.3 |
| Free cash flow | -0.5 | -27.1 | -0.2 | 3.6 | 4.2 |
| Capital increase | 4.1 | 22.6 | 0.0 | 0.0 | 0.0 |
| Dividend payment | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other | 0.0 | 0.4 | 0.0 | 0.0 | 0.0 |
| Change in NFP | 3.6 | -4.0 | -0.2 | 3.6 | 4.2 |
| Profitability and financial ratios (%) | 2004 | 2005 | 2006E | 2007E | 2008E |
| EBITDA margin | 0.1 | 5.9 | 12.9 | 15.5 | 16.1 |
| EBIT margin | -21.8 | -1.4 | 6.6 | 9.9 | 11.0 |
| Net margin | -34.4 | -6.3 | 2.8 | 6.4 | 7.9 |
| ROI | -43.0 | -2.7 | 8.7 | 13.7 | 16.3 |
| ROE | NM | -19.0 | 5.1 | 11.6 | 13.5 |
| D/E | 553.4 | 39.3 | 38.1 | 22.6 | 8.5 |
| Growth rates (%) | 2004 | 2005 | 2006E | 2007E | 2008E |
| Sales | -17.7 | 85.9 | 19.3 | 7.7 | 7.8 |
| EBITDA | NM | NM | 158.2 | 30.1 | 11.7 |
| EBIT | -30.2 | -87.7 | NM | 60.7 | 20.2 |
| Net income | -24.3 | -65.9 | NM | 147.6 | 32.8 |

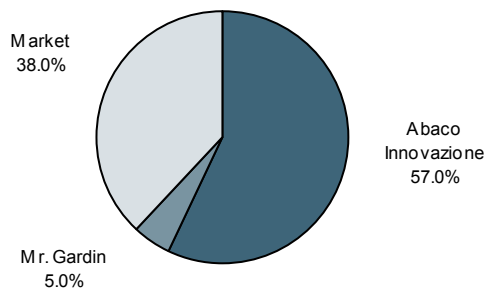
Source: Company data and Banca IMI estimates

Exprivia: At a Glance

Company Description

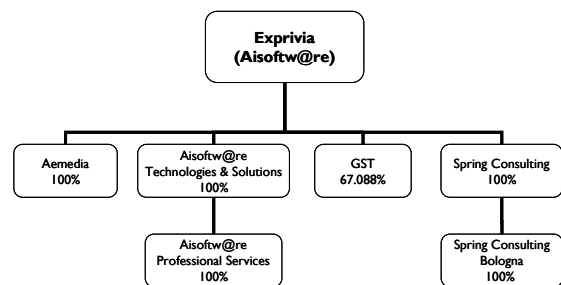
Exprivia was born from the merger of Aisofware (a SW producer specialised in banking and medical sectors) and Abaco (a system integrator). The group offering includes SW solutions, consulting, outsourcing, and managed services, mainly focused on finance, industrial & telecom; PA & utilities and healthcare & medical sectors. The employees amount to approx. 650, with 6 branches in Italy. Exprivia is listed on the Italian stock exchange since August 2000.

Shareholder Structure



Source: Company data

Group Structure



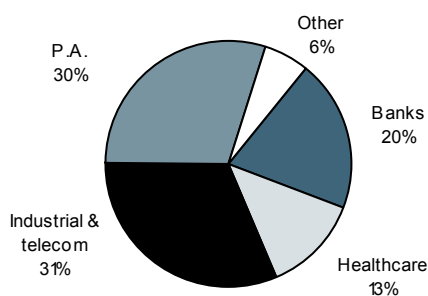
Source: Company data

Summary of Corporate Governance Rules

| | Board of directors | Internal Audit Committee | Remuneration Committee |
|------------------------------------|---------------------------|--------------------------|------------------------------------|
| Independent members/Total members | 2/7 | 2/3 | 2/3 |
| Remuneration system | Stock Option Plan No | | Shares to employees No |
| Minority shareholders listing vote | Board of directors No | | Statutory Board of Auditors Yes |
| Chairman | Different from CEO Yes | | Independent No |

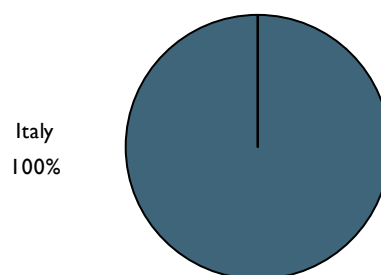
Source: Company data

Revenue Breakdown (2005)



Source: Company data

Revenue Breakdown by Region (2005)



Source: Company data

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The analyst named on the front page of this report certifies that:

- (a) The views expressed on company mentioned herein accurately reflect their personal views.
- (b) No direct or indirect compensation has been or will be received in exchange for any views expressed.

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1. Neither the analyst nor any member of the analyst's household has a financial interest in the securities of the Company.
2. Neither the analyst nor any member of the analyst's household serves as an officer, director or advisory board member of the Company.
3. The analyst of this report does not receive bonuses, salaries, or any other form of compensation that is based upon specific investment banking transactions.

DISCLOSURES

4. Banca IMI plans to solicit investment banking business (as defined above) or intends to seek compensation from the Company in the next three months.
5. Banca IMI signed an agreement with Exprivia (previously Aisoftware) to maintain liquidity in its shares and to publish research on the company (January 2006).

RECOMMENDATION DEFINITION AND HISTORY

As at 30 September 2003, research produced by Banca IMI did not include specific stock ratings or target prices. Therefore, we do not show target price and rating histories, nor a stock rating system and distribution of ratings (in aggregate or for companies for which Banca IMI has provided investment banking services in the last 12 months).

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