

THE VENTURE-BACKED IPO MARKET¹²

During the 12 months ended February 29, 2004 Ernst & Young Financial-Business Advisors ('Ernst & Young') has continued monitoring the share prices of venture backed companies listed on the Italian markets through the analysis of two focused Ernst & Young indices, as reported in previous edition of the AIFI yearbooks.

During the period under review the stock markets across the world have recovered significantly. After two years of prolonged crisis characterised by sluggish growth, increased confidence in the prospects for the global economy have led the markets to be bullish.

In this context, despite an overall increase in the index value of European financial markets by 32% on average, the Italian stock market increased by 22%, the lowest increase amongst the major European stock markets but not worse than the US index S&P, which increased by 20%.

As of January 2004, the Italian stock market fell to the sixth position in Europe in terms of market capitalization¹³ and to the eighth position in terms of number of listed companies. Today, the Italian stock market represents just 38% of GDP, one of the lowest levels since 1998.

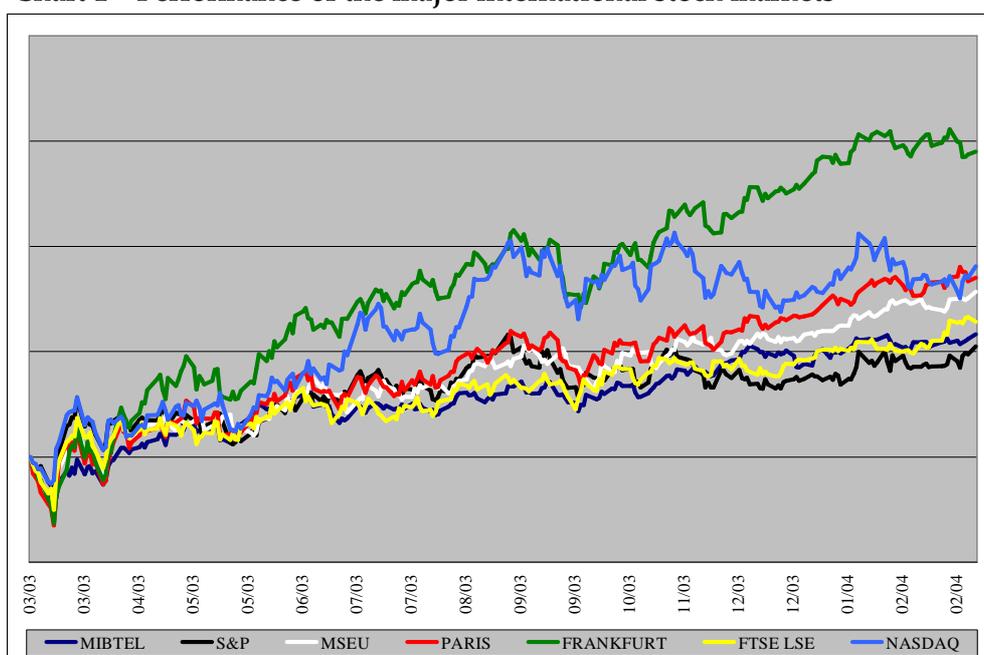
Chart 1 shows the performance of the Mibtel index in relation to the other major international stock exchanges indices.

The Nuovo Mercato, in line with the positive market trend, has had sustained growth over the period under review, despite the gradual decline in the high tech sector. The Italian market for high technology companies increased by 34%, almost matching the 35% increase on NASDAQ.

¹²The analysis has been realized by Ernst & Young Financial Advisors.

¹³ European Securities Exchange Statistics – January 2004.

Chart 1 – Performance of the major international stock markets



Source: Bloomberg

IPO ACTIVITY

Despite an improving stock market, the year ended February 29, 2004 was very disappointing in terms of the number of Initial Public Offerings ('IPOs') placed on the domestic market, with just 4 new listings made on the Mercato Telematico Azionario ("MTA") and, for the second year in succession, none on the Nuovo Mercato, as opposed to 6 listings in the previous 12 months to February 28, 2003, 16 listings in 2002 and 45 in 2001.

This is mainly caused by the low IPO prices the market offers and by a general scepticism about the efficiency of the stock market among entrepreneurs and investors. In addition, nervousness on the build-up and commencement of the

Iraq War and recent terrorist attacks have caused target companies to postpone the IPO process.

It is likely that the number of IPOs in 2004 will increase, considering the growing number of Italian private equity funds now active in Europe and in particular in Italy, and the backing given by the private equity investors to the listing of new enterprises on the official markets.

MTA

All the new companies listed on MTA belong to the traditional sector: utilities (META and HERA), industrial products (Trevisan) and production of flower products (Isagro) confirming that “old economy” sectors (unlike the sectors such as TLC, internet and new technologies that drove the IPOs of past years) are still attractive even in a difficult marketplace.

During the period under review, 2 of the 4 new listings on MTA were venture backed companies. The following table summarises the new MTA listings during the past 12 months.

Table 1 – IPOs on MTA (March 2003 – February 2004)

Company name	Ipo date	Ipo price (Euro)	Market cap. (Euro Mln)	Venture backed
ISAGRO	05/11/2003	4.00	60	Yes
TREVISAN	05/11/2003	3.10	67	Yes
HERA	26/06/2003	1.25	1,085	No
META	28/03/2003	1.95	290	No

Source: Ernst & Young Financial-Business Advisors, Bloomberg

THE NUOVO MERCATO

During the period under review, and the prior year, there have been no new listings on the Nuovo Mercato.

PERFORMANCE OF VENTURE BACKED SHARES

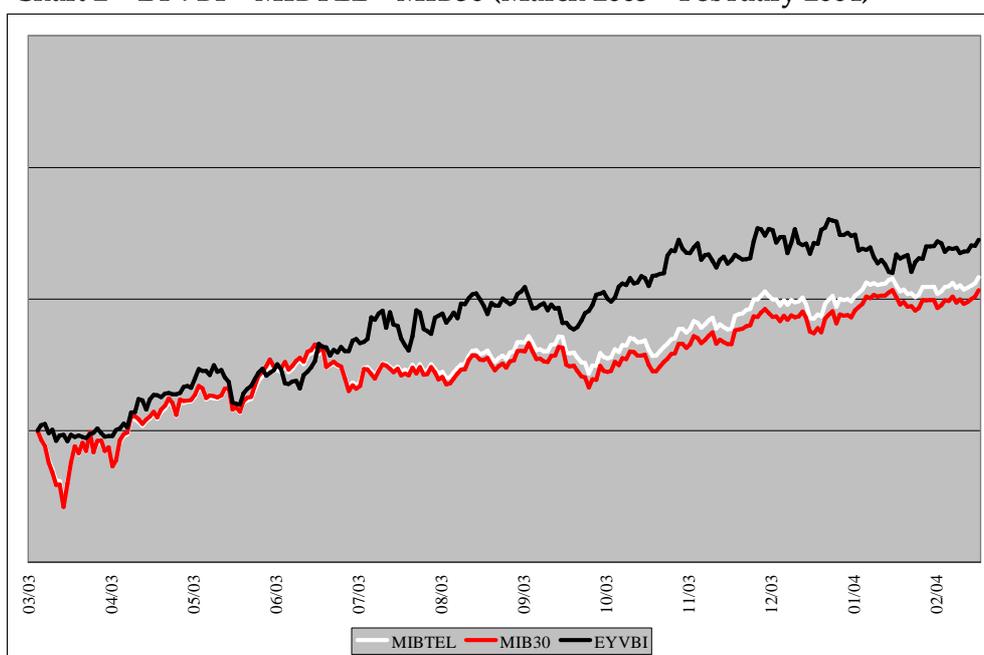
Ernst & Young indices monitor the performance of venture backed shares listed on the Italian markets: the Ernst & Young Venture Backed Index ('EYVBI'), created in November 1999, which monitors venture backed companies with shares listed on the MTA and the Ernst & Young Nuovo Mercato Index ("EYNMI"), which includes the venture backed issuers listed on the Nuovo Mercato. The basket of companies included in the indices is revised twice a year on May 1 and November 1 and includes Venture backed companies which have been listed for more than three months and less than three years. Companies in the first three months after listing are not included in order to avoid the effect of 'underpricing' on IPO whilst those listed for over three years are considered no longer to be influenced by their Venture Capital investors.

EYVBI

Chart 2 summarises the performance of the EYVBI from March 1, 2003 through February 29, 2004.

The chart shows that the EYVBI generally outperformed the market trend. Over the period, the EYVBI value increased by 28% as compared to 22% of MIBTEL and 20% of MIB30 although the drop in the market value of the insolvent Giacomelli Group by 65% in the 6 months before suspension by the Milan stock exchange and exclusion from the EYVBI. The index has been driven mainly by Astaldi that gained 60% in 12 months and represents 19% of the index and by Campari Group that gained 28% and represents 78% of the index.

Chart 2 – EYVBI – MIBTEL – MIB30 (March 2003 – February 2004)



Source: Ernst & Young Financial-Business Advisors, Bloomberg

The following table lists the companies included in the EYVBI basket from November 1, 2003 to February 29, 2004 showing the industry sectors in which they operate, IPO dates, market capitalisation and growth over the four-month period.

Table 2 – EYVBI basket (November 2003 – February 2004)

Company name	Ipo date	Market cap. (Euro Mln)	Change over 4 months	Industry Sector
DAVIDE CAMPARI MILANO	06/07/2001	1,079	-1%	Beverages
NEGRI BOSSI	06/11/2001	51	3%	Machines
ASTALDI	06/06/2002	268	0%	Constructions

Source: Ernst & Young Financial-Business Advisors, Bloomberg

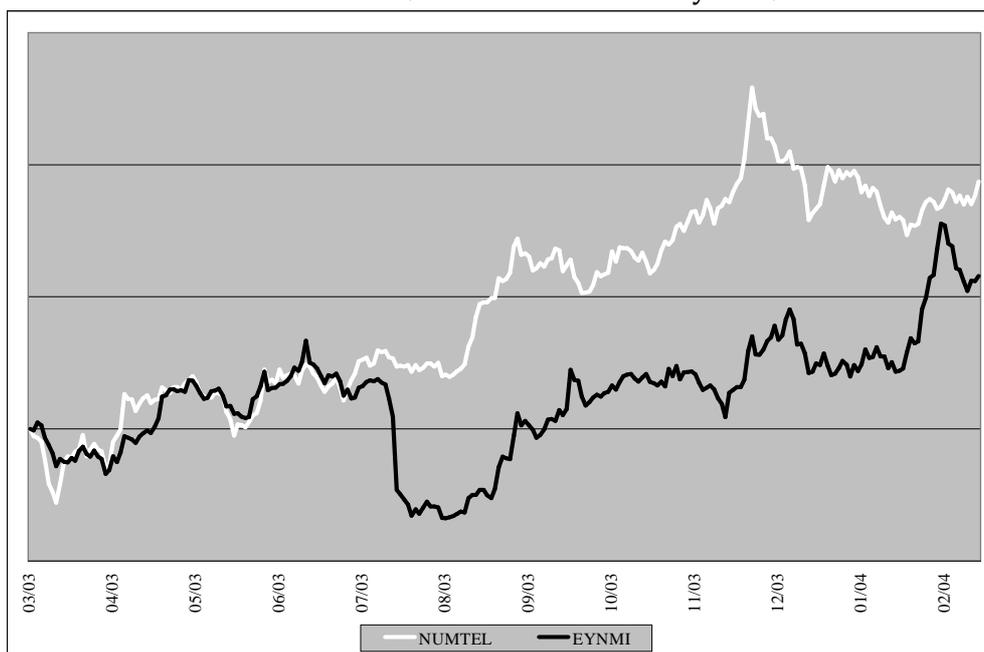
In the last 12 months, the EYVBI has been strongly dependent upon one company, Campari Group, that represents 78% of the total capitalization of the index companies.

As of February 29, 2004, the combined market capitalisation of the companies included in the EYVBI was 1,398 Euro Mln, compared to the capitalisation of the MTA listed companies of 514,108 Euro Mln. Therefore, the EYVBI accounts for some 0.3% of the total MTA.

EYNMI

The following chart summarises the performance of the EYNMI from March 1, 2003 to February 29, 2004.

Chart 3 – EYNMI – NUMTEL (March 2003 – February 2004)



Source: Ernst & Young Financial-Business Advisors, Bloomberg

The chart shows that the EYNMI has been lower than NUMTEL, except from May 2003 to July 2003. This is partially due to the fall of Cardnet Group that lost 30% in a month between June and July 2003, with an annual performance of -36% in the 12 months. The EYNMI during the 12 months ending February 29, 2004 gained 22% as compared to 35% increase for NUMTEL.

The following table lists the companies included in the EYNMI after the last index review (November 1, 2003), showing their industry sectors, IPO dates, market capitalisation and growth over the last four-month period.

Table 3 – EYNMI basket (November 2003 – February 2004)

Company name	Ipo date	Market cap. (Euro Mln)	Change over 4 months	Industry sector
ENGINEERING	12/12/2000	298	14%	E-Services/Cons.
DMAIL.IT	22/12/2000	19	2%	Retail-Misc.
CARDNET GROUP	02/03/2001	9	-30%	Data Processing

Source: Ernst & Young Financial-Business Advisors, Bloomberg

As at February 29, 2004, the combined market capitalisation of the companies included in the EYNMI was 326 Euro Mln, compared to the capitalisation of the Nuovo Mercato listed companies of 10,814 Euro Mln. The EYNMI therefore accounts for some 3% of the total Nuovo Mercato.

The Nuovo Mercato is now in an improved situation compared to 2002. The number of companies listed at February, 29 2004 is 44, including 4 dual listings (2 of which foreign companies). Based on the latest statistics available, the aggregate turnover of listed companies in June 2003 was 3,505 Euro Mln (+11%), compared with 3,165 Euro Mln in June 2002.

As of February 29, 2004 e.Biscom was the company with the largest market capitalisation (2,820 Euro Mln), followed by Tiscali (2,065 Euro Mln) and the Swiss company BB Biotech (1,233 Euro Mln).