



**INTERIM CONSOLIDATED FINANCIAL
STATEMENTS OF ALGOL SPA AS OF AND FOR
THE SIX-MONTH PERIOD ENDED JUNE 30, 2004**

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MANAGEMENT REPORT

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF ALGOL SPA AS OF AND FOR
THE SIX-MONTH PERIOD ENDED JUNE 30, 2004**



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MANAGEMENT REPORT

Dear Shareholders,

For the quarter ended June 30, 2004, we posted consolidated revenue of Euro 40.1 million and a loss after tax of Euro 2.1 million, after having discounted Euro 245 thousand of goodwill amortization and Euro 800 thousand of bad credit provision. When compared to the same period of 2003, the consolidated revenue showed a decrease of 21.8% from Euro 51.3 million, while the loss after tax is compared to a negative of Euro 536 thousand. The decrease in revenue was primarily due to the slow down of the IT market segment in Germany and Italy. EBITDA for the quarter ended June 30, 2004 showed a negative result of Euro 351 thousand compared to a positive result of Euro 1.0 million in the same period of 2003. EBIT for the period showed a negative result of Euro 1.5 million compared to a positive result of Euro 451 thousand in 2003. For the three month period ended June 30, 2004, Algol S.p.A., AlgolNet S.p.A., Epsilon France S.a.s. and AlgolProducts S.p.A. showed losses after tax, due to the slow down of the IT market in France and Italy; Algol Deutschland GmbH showed a positive result after taxes; Algol France S.a.s. showed losses, as its activity started at the end of 2003. Algol France S.a.s. and Algol S.p.A. showed revenues of Euro 677 thousand and Euro 1.0 million, respectively, in the three month period ended June 30, 2004; Algol Deutschland GmbH showed sales of Euro 6.0 million; Epsilon France S.a.s. recorded sales of Euro 574 thousand. Our consolidated gross margin decreased from 9.0% in the quarter ended June 30, 2003, to 8.3% in the same period of 2004.

For the six month period ended June 30, 2004, we posted consolidated revenue of Euro 80.9 million and a loss after tax of Euro 3 million, after having discounted Euro 490 thousand of goodwill amortization and 800 thousand of bad credit provision. When compared to the same period of 2003, the consolidated revenue showed a decrease of 16.7% (considering the sale of company Telecom S.r.l. sold in Q2 of 2003) from Euro 98.6 million, while the loss after tax is compared to a loss of Euro 675 thousand. The decrease in revenue was primarily due to the slow down of the IT market segment in Germany and Italy. EBITDA for the six month period ended June 30, 2004 showed a negative result of Euro 277 thousand compared to a positive result of Euro 1.9 million in the same period of 2003. EBIT for the period showed a negative result of Euro 2 million compared to a positive result of Euro 817 thousand in the same period of 2003. For the six month period ended June 30, 2004, Algol S.p.A., AlgolNet S.p.A., Epsilon France S.a.s. and AlgolProducts S.p.A. showed losses after tax due to the slow down of the IT market in France and Italy; Algol Deutschland GmbH was at break even after tax; Algol France S.a.s. showed losses, as its activity started at the end of 2003. Algol France S.a.s. and Algol S.p.A.

showed revenues of Euro 1.3 million and Euro 2.1 million, respectively, in the six month period ended June 30, 2004; Algol Deutschland GmbH showed sales of Euro 10.7 million; Epsilon France S.a.s. recorded sales of Euro 1.7 million. Our consolidated gross margin decreased from 9.1% in the six month period of 2003, to 8.0% in the same period of 2004.

The main changes in our consolidated balance sheet were due to the decrease of our inventory from Euro 12.6 million, as of the end of March 2004, to Euro 12 million as of June 30, 2004, while turns increased from 11.9 per annum in Q1 of 2004 to 12.3 per annum as of June 30, 2004. Trade accounts receivable decreased from Euro 53.4 million as of the end of March 2004 to Euro 50.8 million as of the end of June 2004; days sales outstanding decreased from 99 as of March 2004 to 95 as of June 2004. Trade accounts payable decreased from Euro 42.2 million, as of the end of March 2004, to Euro 35.6 million as of the end of Q2 2004. As of March 31, 2004 the net working capital was Euro 34.1 million, turning 4.8 times per annum compared to the net working capital of 34.9 million, turning 4.6 times per year, in Q2 of 2004. The net financial position at the end of March 2004 was a negative Euro 32.8 million, compared to a negative Euro 35.8 million as of June 30, 2004.

These are the major events that occurred up to August 31, 2004:

- On January 1, 2004 AlgolProducts warehouse was moved from Verona to Milan area and a new logistics system is now up and running.
- In January 2004 Cisco Systems and eight AlgolNet affiliates launched a co-branding campaign on major financial newspapers to promote the Call Manager Ip Telephony system. This event positions Algol as a pro-active solution provider through a chain of independent resellers.
- On February 5, 2004 Cisco Systems awarded AlgolProducts S.p.A. as “Distribution Partner of the Year 2003” in Italy.
- On February 12, 2004 AlgolProducts was reorganized as two Business Units: Computing and Networking. Stellino Sambugaro is the new director of the BU Computing while Barbara Giannini will run the BU Networking.
- On April 26, 2004 the Board of Directors of Algol S.p.A. met to confirm the calling of an extraordinary shareholders' meeting to approve an increase in share capital. The purpose of the share capital increase is to raise the funds needed to allow Algol S.p.A. to continue its internal growth strategy by enhancing its commercial network, and to take advantage of any opportunities for external growth, thereby consolidating its position as a value-added distributor of Network Computing solutions in Europe.
- On July 31, 2004 Veritas Software International Ltd gave us the 60 days notice to cancel the current distribution agreement. We do not expect any significant impact on the overall business of the group.
- On August 5, 2004 AlgolProducts S.p.A. announced to phase out the Acer volume business so to further focus on the high-end of the Computing market segment.

For a more detailed explanation of the Q2 2004 results, please refer to the company's Notes to the Unaudited Condensed Consolidated Interim Financial Statements as at June 30, 2004 and the Notes to the Audited Consolidated Financial Statements as at December 31, 2003 (Annual Report 2003).

Thank you for your continuing support.

Sincerely,

A handwritten signature in black ink, appearing to read 'M. Liverani', with a stylized flourish at the end.

Algol S.p.A. - Group Holding Company
Maurizio Liverani
Chairman of the Board and Chief Executive Officer

CONDENSED CONSOLIDATED INCOME STATEMENT
(Thousands of Euro)

	Quarter ended June 30, 2004	Quarter ended June 30, 2003	Quarter ended June 30, 2002
Revenues			
Sales and services	39.812	51.086	59.330
Other income	281	171	(178)
Total revenues	40.093	51.257	59.151
Costs			
Cost of goods sold	36.498	46.472	53.731
Labor cost	1.523	1.649	2.028
Outside services	2.222	1.808	2.475
Other operating expenses	200	277	187
Total costs	40.444	50.206	58.420
EBITDA	(351)	1.050	731
	-0,9%	2,0%	1,2%
Amortization and Depreciation	(391)	(474)	(512)
Provisions	(748)	(126)	(436)
EBIT	(1.489)	451	(217)
	-3,7%	0,9%	-0,4%
Net Financial income (expenses)	(766)	(274)	(192)
Extraordinary income	(189)	145	211
Extraordinary expenses	374	(242)	(243)
PBT	(2.070)	80	(441)
	-5,2%	0,2%	-0,7%
Income Tax	(63)	(627)	(749)
Deferred Tax	16	11	66
Income (loss) for the period	(2.117)	(536)	(1.124)
Minority interests	1	(1)	8
Net income (loss) for the period	(2.117)	(536)	(1.116)

CONDENSED CONSOLIDATED INCOME STATEMENT
(Thousands of Euro)

		Audited			
		Six months ended	Six months ended	Six months ended	Year ended
		June 30,	June 30,	June 30,	December 31,
		2004	2003	2002	2003
Revenues					
	Sales and services	80.319	98.296	116.606	185.370
	Other income	618	327	270	711
	Total revenues	80.937	98.623	116.876	186.081
Costs					
	Cost of goods sold	73.897	89.396	106.455	168.825
	Labor cost	3.076	3.024	3.969	6.019
	Outside services	3.989	3.959	5.008	8.656
	Other operating expenses	251	387	432	440
	Total costs	81.214	96.766	115.864	183.939
	EBITDA	(277)	1.857	1.012	2.142
		-0,3%	1,9%	0,9%	1,2%
	Amortization and Depreciation	(846)	(881)	(953)	(1.806)
	Provisions	(829)	(159)	(565)	(833)
	EBIT	(1.952)	817	(506)	(497)
		-2,4%	0,8%	-0,4%	-0,3%
	Net Financial income (expenses)	(974)	(706)	(899)	(1.294)
	Extraordinary income	49	165	348	865
	Extraordinary expenses	(76)	(335)	(382)	(725)
	PBT	(2.953)	(59)	(1.439)	(1.651)
		-3,6%	-0,1%	-1,2%	-0,9%
	Income Tax	(63)	(627)	(801)	(317)
	Deferred Tax	16	11	66	113
	Income (loss) for the period	(3.000)	(675)	(2.174)	(1.855)
	Minority interests	2	0	17	2
	Net income (loss) for the period	(2.998)	(675)	(2.157)	(1.852)

CONDENSED CONSOLIDATED BALANCE SHEET
(Thousands of Euro)

	Audited			
	June 30,'04	June 30,'03	June 30,'02	December 31,'03
ASSETS				
Fixed assets				
Intangible assets	6.918	7.781	8.930	7.316
Tangible assets	989	1.202	1.439	1.110
Financial assets	143	186	12	196
Receivables	51	49	64	49
Total fixed assets	8.102	9.219	10.914	8.671
Current assets				
Inventories	12.003	19.994	30.987	11.195
Trade accounts receivable	50.812	66.151	72.017	61.402
Other receivables	10.681	13.784	23.028	13.211
Current financial assets	3.037	2.918	6.005	2.982
Cash and banks	3.068	3.061	3.833	3.123
Total current assets	79.602	105.909	135.870	91.912
Accrued income and prepaid expenses	124	327	212	82
Total assets	87.828	115.455	146.996	100.665
LIABILITIES AND SHAREHOLDERS' EQUITY				
Shareholders' equity				
Share capital	1.821	1.821	1.829	1.821
Share Premium	10.003	17.811	17.811	17.811
Legal reserve	365	258	258	258
Own shares reserve in portfolio	(0)	8	470	(0)
Retained earnings (Accumulated deficit)	(3.549)	(9.197)	(5.852)	(9.189)
Net income (loss) for the period	(2.998)	(675)	(2.156)	(1.852)
Reserve for covering interim losses	210			
Shareholders' equity - Minority interest	39	43	117	41
Total shareholders' equity	5.890	10.070	12.477	8.890
Provisions for liabilities and expenses				
Provision for future risks	74	204	484	120
Other provisions	353	862	477	449
Total	427	1.066	961	570
Employees' severance indemnity	878	848	834	881
Payables				
Debentures			14	
Bank borrowings	34.807	42.107	50.380	34.978
Shareholders' loan		155	155	
Payable to other lenders	7.092			5.703
Trade accounts payable	35.641	57.689	78.291	47.324
Taxes payable	1.812	2.031	1.916	1.085
Other payables	1.223	1.338	1.458	1.177
Total payables	80.575	103.320	132.214	90.267
Accrued liabilities and deferred income	58	151	509	57
Total liabilities and shareholders' equity	87.828	115.455	146.996	100.665

INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF ALGOL SPA
AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2004

BALANCE SHEET (Amounts in Euro)			
	30/06/2004	30/06/2003	31/12/2003
ASSETS			
(B) Fixed Assets			
I Intangible assets			
1 Formation and expansion expenses	38.131	43.135	34.271
2 R&D and Advertising costs	68.941	114.902	91.922
3 Industrial patents and intellectual property rights	402.218	212.017	293.046
4 Concessions, licenses and similar rights	10.016	10.332	11.868
5 Goodwill	171.982	210.198	191.091
7 Other	6.227.088	7.190.627	6.693.366
Differences on consolidations	6.153.521	7.133.364	6.643.453
Total	6.918.376	7.781.213	7.315.564
II Tangible assets			
2 Plant and equipments	65.837	79.787	76.832
3 Industrial and commercial equipments	20.612	48.181	23.133
4 Other assets	902.445	1.074.328	1.010.077
Total	988.894	1.202.295	1.110.041
III Financial fixed assets			
1 Investments in:			
(a) Subsidiaries	(0)		40.000
(b) Associated companies	124.086	167.013	137.014
(d) Other companies	19.160	18.908	18.908
Total	143.246	185.921	195.922
2 Receivables:			
(d) From others due beyond one year	51.462	48.993	49.471
Total	51.462	48.993	49.471
3 Other securities	0	310	0
Total	0	310	0
Total fixed assets	8.101.978	9.218.733	8.670.999
(C) Current assets			
I Inventory			
4 Finished goods for sale	12.002.625	19.993.788	11.194.648
Total	12.002.625	19.993.788	11.194.648
II Receivables			
1 Trade account receivables			
Due within one year	50.732.421	65.941.260	61.377.039
Due beyond one year	18.720	157.332	0
3 From associated companies			
Due within one year	61.218	52.755	24.829
4bis Prepaid taxes			
Due within one year	571.849	22.412	1.428.252
4ter Deferred tax assets			
Due within one year	396.637	300.230	381.121
5 Other receivables			
Due within one year	8.895.973	12.519.389	10.459.443
Due beyond one year	816.964	941.706	941.706
Total	61.493.782	79.935.085	74.612.390
III Current financial assets			
6 Other securities	3.037.355	2.918.397	2.982.098
Total	3.037.355	2.918.397	2.982.098
IV Cash at bank and on hand			
1 Bank and postal deposit	3.013.624	3.050.761	3.116.695
3 Cash and cash equivalents	54.402	10.546	6.046
Total	3.068.026	3.061.307	3.122.741
Total current assets	79.601.788	105.908.578	91.911.877
(D) Accrued income and prepaid expenses			
(b) Other accrued and prepaid expenses	124.108	327.358	82.407
Total accrued income and prepaid expenses	124.108	327.358	82.407
Total assets	87.827.874	115.454.669	100.665.283

The notes are an integral part of these interim consolidated financial statements

SHAREHOLDERS' EQUITY AND LIABILITIES			
(A)	Shareholders' equity		
I	Share capital	1.820.844	1.820.844
II	Share premium reserve	10.002.734	17.811.325
IV	Legal Reserve	365.356	258.229
V	Reserve of treasury shares in portfolio	0	8.320
VII	Other reserves	993.747	985.427
VIII	Retained earnings (accumulated deficit)	(4.542.910)	(10.182.650)
IX	Net income (loss) for the period	(2.998.348)	(674.988)
	Reserve for covering interim losses	209.515	0
	Total Shareholders' Equity	5.850.939	10.026.507
X	Share capital and reserves pertaining to minority interests	40.741	43.114
XI	Income (loss) for the period pertaining to minority interests	(2.138)	235
	Total minority interest	38.603	43.349
	Total shareholders' equity	5.889.542	10.069.857
(B)	Provisions for contingent liabilities and charges		
1	Pensions and similar benefits	36.399	54.000
2	Taxes	37.240	150.273
3	Other:		
	(e) Other risks	352.980	862.100
	Total reserves for risks and charges	426.619	1.066.373
(C)	Employees' severance reserve	878.236	847.719
(D)	Payables		
3	Bank borrowings		
	Due within one year	34.807.353	42.107.327
4	Payables to other lenders		
	Due within one year	7.092.206	154.937
	Due beyond one year	0	4.191
6	Trade payables	35.440.396	57.282.126
9	Payables to associated companies	200.426	407.009
11	Taxes Payables	1.812.192	2.030.876
12	Social security agencies payable	296.373	255.827
13	Other payables	926.196	1.077.557
	Total payables	80.575.141	103.319.850
(E)	Accrued expenditure and deferred income		
(b)	Other accrued expenditure and deferred income	58.336	150.871
	Total accrued expenditure and deferred income	58.336	150.871
	Total liabilities	87.827.874	115.454.669
	Memorandum accounts		
	1)Unsecured guarantees	26.321.864	2.728.973
	2)Secured guarantees	2.800.000	0
	3) Commitments to purchase and sell		
	I Commitments related to off-balance sheet instruments	8.311.330	8.076.810
	II Commitments on operating lease contracts	0	0
	5) Risks		
	I Receivables transferred to factoring companies with recourse	0	0
	Total memorandum accounts	37.433.194	10.805.783

The notes are an integral part of these interim consolidated financial statements

		30/06/2004	30/06/2003	31/12/2003
INCOME STATEMENT				
(A)	Production value			
1	Revenues from sales of goods and services	80.318.852	98.296.314	185.369.684
5	Other revenues and income:			
	(b) Other revenues	617.680	327.315	711.167
Total production value		80.936.532	98.623.629	186.080.851
(B)	Production costs			
6	Raw materials, auxiliaries, consumables and goods for resale	74.722.430	91.873.528	164.440.374
7	Services	3.307.969	3.393.956	7.487.911
8	Use of assets of third parties	680.610	565.428	1.167.798
9	Personnel costs:			
	(a) Salaries and wages	2.114.986	2.136.479	4.236.106
	(b) Contributions	652.688	635.125	1.298.939
	(c) Severance indemnity	114.598	126.316	237.612
	(e) Other costs	194.060	126.302	246.134
10	Amortization, depreciation and write downs:			
	(a) Amortizations of intangible assets	631.097	605.527	1.267.514
	(b) Depreciation of tangible assets and liquid funds	215.272	275.749	538.404
		820.390	8.716	631.986
11	Changes in inventories of raw materials, auxiliaries, consumables & goods for resale	(825.083)	(2.477.354)	4.384.608
12	Accruals for liabilities	0	150.000	172.395
13	Other accruals	8.190	0	28.921
14	Other operating expenses	251.260	387.221	439.552
Total costs of production		82.888.467	97.806.992	186.578.253
Difference between value and cost of production		(1.951.935)	816.637	(497.403)
(C)	Financial income and charges			
15	Income on investments			
	(a) Dividends from subsidiaries	0	0	975.938
	(c) Dividends from other companies	511	0	0
	(d) Other investment income	0	66.153	66.153
16	Other financial income:			
	(c) From securities held as current assets other than equity investments	15.600	19.230	35.175
	(d) Other income			
	Interest and commission from others and sundry income	1.289.643	946.941	1.686.419
17	Interest and other financial charges			
	(b) Interest and commission to subsidiaries	0	1.076	2.922
	(d) Interest and commission to others and sundry charges	2.279.699	1.737.046	4.054.419
Total financial income and charges (15+16-17)		(973.945)	(705.798)	(1.293.656)
(D)	Adjustments to financial assets			
19	Write downs			
	(a) Of investments	12.928	0	30.000
Total adjustments		(12.928)	0	(30.000)
(E)	Extraordinary gains and losses			
20	Gains			
	(a) Gains on disposals	0	1.656	13.483
	(c) Other income	48.764	163.626	851.702
21	Losses			
	(a) Losses on disposals	1.604	135	135
	(b) Other expenses	61.632	214.335	316.766
	(c) Taxes of previous years	0	120.633	378.348
Total extraordinary items (20-21)		(14.472)	(169.820)	169.936
Income (loss) before taxes		(2.953.280)	(58.981)	(1.651.123)
22	Income taxes			
	Current taxes	(63.285)	(626.861)	(316.724)
	Deferred taxes	16.080	11.090	113.242
23	Income (loss) for the year	(3.000.485)	(674.752)	(1.854.605)
24	Income (loss) for the year-Minority	(2.138)	235	(2.375)
25	Income (loss) for the year	(2.998.348)	(674.988)	(1.852.230)

The notes are an integral part of these interim consolidated financial statements

STATEMENT OF CASH FLOWS
(Thousands of Euro)

	June 30 '04	June 30 '03	June 30 '02	Audited December 31 '03
Cash flows from operating activities				
Net income (loss) for the period	(3.000)	(675)	(2.156)	(1.855)
Minority interests	(2)	0	(17)	(2)
Amortization and depreciation	846	881	953	1.806
Accrual to provision for employees' severance indemnity	115	126	149	238
Total adjusted results	(2.041)	333	(985)	187
Increase (decrease) in net current assets				
Inventories	(808)	(3.066)	4.409	5.733
Trade accounts receivable	10.590	5.414	(688)	10.165
Other short-term receivables	2.529	3.038	4.719	3.612
Payments for employees' severance indemnity	(118)	(67)	(83)	(144)
Accrued income and prepaid expenses	(42)	326	(1)	571
Trade accounts payable	(11.683)	(1.433)	(9.932)	(11.798)
Other payables	773	146	455	(960)
Changes in provisions for liabilities and expenses	(143)	139	235	(357)
Accrued liabilities and deferred income	1	(1.110)	(170)	(1.204)
Total (Increase) decrease in net current assets	1.099	3.388	(1.056)	5.617
Net cash provided by (used for) operating activities	(942)	3.721	(2.041)	5.803
Cash flows from investing activities				
Increase of tangible and intangible assets	(327)	(322)	(298)	(688)
Decrease of consolidated investments		(174)		
(Increase) decrease of other investments				(177)
Net cash provided by (used for) investing activities	(327)	(496)	614	(865)
Cash flows from financing activities				
Increase (decrease) of shareholders equity	2	0		0
Increase (decrease) of shareholders equity- Minority interest		(57)	25	(57)
Decrease (increase) of long-term receivables	(2)	(1)	(17)	(1)
Increase (decrease) in Short-term securities	(3)	(1.029)		(1.099)
Increase (decrease) in short-term borrowings from banks	(171)	(27)	7.511	(7.156)
increase (decrease) of payables to other lenders	1.389			5.548
Net cash provided by (used for) financing activities	1.215	(1.114)	1.323	(2.766)
Net increase (decrease) in cash	(55)	2.111	(104)	2.173
Cash at the beginning of the period	3.123	950	3.936	950
Cash at the end of the period	3.068	3.061	3.832	3.123

A detailed analysis of the financial position of the group is included in the Notes.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF ALGOL SPA AS OF AND FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2004

Form and content of the interim financial statements

The interim financial statements consist of the consolidated balance sheet, consolidated income statement and notes on the interim consolidated financial statements.

The interim financial statements have been translated from the Italian into the English language solely for the convenience of international readers.

The balance sheet and the income statement, expressed in Euro, have been prepared in conformity with existing laws in Italy, according to the formats required by articles 2424 and 2425 of the Italian Civil Code, using the accounting principles issued by the Consigli Nazionali dei Dottori Commercialisti e Ragionieri with particular reference to the accounting principle n.30 in relation to the preparation of interim financial statements.

The balance sheet, the income statement and the statement of cash flows show comparative values as of June 30, 2003 and data related to the year ended as of 31 December 2003.

All the figures in the Notes are in thousands of Euro unless specified otherwise.

These notes disclose the following:

- **Consolidation area**
- **Consolidation principles**
- **Accounting principles**
- **Analysis of the main items in the consolidated financial statements**
- **Interim unconsolidated balance sheet and income statement of Algol SpA as of and for the six-month period ended June 30, 2004**

Consolidation Area

Subsidiary companies included in the consolidation area

Subsidiary companies included in the consolidation area on a line-by-line basis are controlled by the parent company according to the clauses 1 and 2 of the article 2359 of the Italian Civil Code.

The financial information of companies included in consolidation is at June 30, 2004.

The list of companies included in the consolidation area is as follows:

Thousands of Euro as of June 30, 2004

Company	Registered office	Share Capital	Shareholders' Equity	Profits/Losses 30.06.2004	% ownership 30.06.2004	% ownership 31.12.2003
AlgolFrance S.a.s.	Sèvres	40	(87)	(127)	100	100
AlgolDeutschland GmbH	Cologne	26	1.594	(1)	100	100
AlgolProducts S.p.A.	Verona	1.600	172	(1.750)	100	100
Epsilon France S.a.s.	Sèvres	40	(840)	(55)	100	100
AlgolNet S.p.A.	Milan	500	393	(21)	90	90

Changes in the consolidation area

On October 21, 2003 the group started a new company in France: AlgolFrance S.a.s. The percentage of ownership is 100%, the value of this shareholding amounts to Euro 40 thousand. From the first quarter of 2004 the company Algol France S.a.s. has been included in the consolidation area.

Non-consolidated associated companies

The associated company Looknbuy.com Sarl (Luxembourg) has not been evaluated using the equity method since it is in liquidation. This shareholding, classified as a financial fixed asset and valued at cost, was wholly written off in 2000 since the Algol Board of Directors considered it permanently impaired. According to the available information, the Board of Directors considers that no further losses for the Group will arise from the liquidation.

Consolidation Principles

The main criteria adopted for preparing the interim consolidated financial statements, in line with those adopted for the consolidated financial statements, are the following:

- The purchase price of the investments has been eliminated against the value of shareholders' equity of the investment and, in the event the percentage of ownership is less than 100%, minority interests in the net equity and result for the year are recorded under a specific shareholders' equity item and in the consolidated income statement.
- The differences between the purchase price of the investment and the net equity of the subsidiary, determined in reference to the book values existing at the date on which the company was consolidated for the first time, are allocated to identified assets and liabilities acquired, based on their fair values. The amount remaining after that allocation is recorded as consolidation reserve if negative, and as difference arising on consolidation (goodwill), if positive.
- Receivables, payables, costs and revenues between companies have been eliminated, as well as gains and losses originating from transactions between group companies.

Accounting Principles

The accounting principles, applied in preparing the consolidated financial statements, are those described in the following paragraphs.

Intangible assets

Intangible assets are stated at purchase cost with the prior approval of the Board of the Auditors, when required by law.

The amounts are net of amortization, which has been calculated in relation to their expected useful life.

In detail:

- Research, development and advertising costs, which meet recommended criteria for capitalization, are amortized over five years;
- Goodwill is amortized over ten years depending on the estimate of future useful life;
- Start-up costs are amortized over five years;
- Software purchased for in-house use is amortized over three or five years;
- Differences arising on consolidation (goodwill) are amortized on a straight-line basis over ten years.

Tangible assets

Tangible assets are stated at purchase or internal production cost, including directly attributable ancillary charges and adjusted by the relative accumulated depreciation.

Depreciation is charged to the income statement on a straight-line basis in relation to those assets available and ready for use in the period.

Depreciation rates are shown below:

	<u>%</u>
Plant	20
Air condition system	15
Data processing equipment	20
Furniture and fittings	15
Display materials	20
Cars	25

Assets worth less than Euro 516 are amortized entirely during the year of purchase.

Maintenance and repair costs are recorded in the income statement in the year of purchase, if routine, or capitalized by way of an increase of the assets to which they refer, if they raise the assets' value.

Any accelerated depreciation made by subsidiary companies for tax purposes is reversed during consolidation, while at the same time accounting for the respective deferred taxes.

Financial fixed assets - Investments

Investments that are not consolidated and are instead recorded as financial assets are stated at purchase or subscription cost. This value is adjusted to reflect impairment of value. Investments in associated companies are recorded using the equity method.

Receivables and payables

Receivables are stated at their presumed realizable value and payables at face value.

Receivables transferred to factoring companies are deducted from *Trade accounts receivable* when the Company makes the assignment without recourse from the factoring company. The amount of advances related to receivables assigned with recourse is indicated in the caption *Payables to other lenders*. Interest charges and commissions due on such credit assignments are recorded under *Interest charges and other financial charges*.

Receivables and payables in foreign currencies are recorded on the basis of the exchange rates on the date when the relative transactions took place. Differences arising on the conversion of foreign currency receivables and payables to year-end exchange rates are booked to the income statement as financial income or expense.

Forward transactions on foreign currency (primarily US dollars), stipulated in order to hedge possible exchange rate risks are shown in the memorandum accounts. The difference between spot and forward rate on these transactions is accounted for on a pro-rata basis on the duration of the hedging contract. The exchange rate risk is monitored daily through appropriate treasury tools.

Inventories

Inventories are stated at the lesser of purchase cost (including accessory charges) determined with the FIFO methodology and the corresponding market value.

Financial assets that are not fixed assets

Securities and investments that are not long-term investments are stated at the lesser of purchase or subscription cost and market value.

Cash at bank and on hand

Bank, post office accounts and cash in hand are stated at nominal value.

Accruals and deferred income

These are entered on an accrual basis, applying the principle of attributing costs and revenues to the year in which they are incurred.

Other reserves for risks and charges

This item includes provisions set for probable charges and losses, which are quantifiable and are not attributable to specific assets on the balance sheet. Provisions reflect the best possible estimate on the basis of the elements available at the date of preparation of the financial statements.

Employee severance indemnity

This is the amount recorded on the basis of the years of service by individual employees at the end of the period, in compliance with current law and employment contracts (applicable in Italy).

Commitments and memorandum accounts

These are stated at nominal value, taking into account commitments and risks at the end of the period.

Costs and revenues

These are recorded on an accrual basis.

Revenues and income, costs and charges are net of returns, allowances, discounts and bonuses, as well as taxes directly attributable to sales of products and supply of services.

Revenues on sales of products are recorded upon transfer of ownership, which generally coincides with the date of shipment. Revenues earned on the sale of services are recorded when the service is rendered.

The credit notes to be received from the suppliers, which are shown as part of *Other receivables*, are mainly related to:

- Discounts on the purchase price ("bids"), accrued when the product subject to such discount specified by the vendor, has been sold to the final customer;
- Discounts on the quantity purchased ("rebates"), on the product lines specified by the vendor that are accrued when the purchase targets are achieved.

Income Taxes

The Group fiscal charge has been calculated based on pre-tax income for the year, through separate calculations made for each group company included within the consolidation.

Taxes are shown in the balance sheet under the item "Taxes payable" net of payments on account, while withholding taxes and tax credits on dividends are recorded under *Other receivables*.

Each Group Company determines the amount of deferred taxes and its balance is separately reported on the balance sheet. Deferred taxes are recorded with current taxes in the income statement.

Deferred tax assets are periodically reviewed to verify their recoverability. In the event this recoverability is not demonstrated, these assets are written down in the income statement, under income taxes.

Analysis of the main captions in the interim consolidated financial statements

The principal information relating to the items in the interim consolidated financial statements as of and for the six-month period ended June 30, 2004 and the most significant fluctuations during the period are presented below.

Balance Sheet: Assets

Intangible assets

Changes for the year are shown below:

Intangible Assets						
Thousands of Euro	Formation and expansion expenses	Goodwill	Research & development and advertising costs	Industrial Patent and intellectual property rights and concessions and licenses	Other	Total
Balance 01/01/2004	635	382	230	1,255	10,209	12,711
Increases	15	-	-	185	33	233
Decreases	-	-	-	-	-	-
Balance 30/06/2004	650	382	230	1,440	10,242	12,944
Amortisation reserve 01/01/2004	601	191	138	950	3,515	5,395
Increases	11	19	23	78	500	631
Decreases	-	-	-	-	-	-
Balance 30/06/2004	612	210	161	1,028	4,015	6,026
Net Value	38	172	69	412	6,227	6,919

The increase in formation and expansion expenses is due to the establishment charges incurred by the company AlgoFrance S.a.s., included in the consolidation area in the first quarter 2004.

“Research, development and advertising costs” include costs related to the launch of a new activity (the creation of member’s network for the provision of integrated network computing solutions) and are not recurring in nature; they are amortized over 5 years.

In the “Industrial patent and intellectual property rights” the increase in 2004 is almost fully related to new software tools in the company AlgolDeutschland GmbH. These assets are amortized over 3 years or 5 years.

The goodwill is totally related to that arising upon a merger of a line of business into AlgolProducts S.p.A. in previous business year.

The caption “Other” is mainly made up of differences on consolidation whose details are provided in the table below.

Differences on consolidation			
Thousands of Euro	Algol Deutschland	AlgolProducts	Total
Balance 01/01/2004	1,626	8,333	9,960
Increases	-	-	-
Decreases	-	-	-
Balance 30/06/2004	1,626	8,333	9,960
Amortisation reserve 01/01/2004	709	2,607	3,316
Increases	81	409	490
Decreases	-	-	-
Balance 30/06/2004	790	3,016	3,806
Net Value	836	5,318	6,154

The differences arising on consolidation are amortized over ten years from the acquisition date.

The heading "Others" also includes Euro 99 thousand of lease-hold improvement with an accumulated amortization of Euro 76 thousand.

Tangible assets

Changes for the year are shown below:

Tangible Fixed Assets				
Thousands of Euro	Plant and Equipments	Data Processing Equipments	Other Assets	Total
Balance 01/01/2004	144	190	3,832	4,166
Increases	-	1	67	68
Decreases	-	-	4	4
Balance 30/06/2004	144	191	3,895	4,230
				-
Amortisation reserve 01/01/2004	67	167	2,822	3,056
Increases	11	3	201	215
Decreases	-	-	30	30
Balance 30/06/2004	78	170	2,993	3,241
Net Value	66	21	902	989

Tangible assets mainly consist of personal computers and electronic machines, stated under the item "Other tangible assets".

No write-downs or write-ups were made during this or the previous period.

There were no restrictions, liens or mortgages on tangible assets as of June 30, 2004.

Depreciation as of June 30, 2004, and as of June 30, 2003 amount to Euro 215 thousand and Euro 276 thousand, respectively.

The parent company and its subsidiary companies do not possess any property: the offices, warehouse and premises to be used for certification and technical training courses are all leased.

The administrative and registered office of the parent company and its subsidiaries are leased in Milan, while Algol Deutschland GmbH is in Cologne, Germany, AlgolProducts SpA has its headquarters in Verona, Epsilon France Sas and AlgolFrance Sas are located in Sèvres, France.

The parent company also leases offices and a warehouse in Rome.

Financial fixed assets – Investments

Investments at June 30, 2004, amount to Euro 143 thousand.

This amount is nearly totally related to the company Telcom S.r.l.; the company, previously consolidated using the line-by-line method is now accounted for (after the sale of 80%) using the equity method, as the Group owns the 15% only of Telcom S.r.l., and it is considered as an investment in an associated company. In addition, the parent company has a 30% holding in the Luxembourg company Looknbuy.com Sarl, in liquidation; the liquidation will be carried out by the Court, within unpredictable times. This investment, which was fully written down in 2000, is recorded at zero value.

The investment in Algol France S.a.s. has been eliminated against the value of shareholders' equity as in the first quarter of 2004 the company is included in the consolidation area.

Investments are made up as follows:

Financial Assets			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Shares in Banca Popolare di Lodi	19	19	19
Shares in AlgolFrance	0	0	40
Shares in Telcom Srl	124	167	137
Total	143	186	196

Financial fixed assets, other receivables, other securities and treasury shares

Receivables from others fully due after the following year amount to Euro 52 thousand and include non-interest-bearing deposits.

Inventories

This item is analyzed in the table below:

Inventories			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Finished products and goods	12.541	20.474	11.587
Reserve	(539)	(480)	(392)
Total	12.002	19.994	11.195

Inventories refer to hardware products (computers, servers, network computing equipment) mostly owned by AlgolProducts SpA and AlgolDeutschland GmbH. The inventory shows an increase, from Euro 11.2 million at December 31, 2003, to Euro 12 million at June 30, 2004. This increase is due to the intention to reduce the delivery time. Average inventory rotation increase from approximately 24 days at December 31, 2003 to approximately 29 days at June 30, 2004.

Trade Receivables

These are analyzed in the table below:

Trade Receivables			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Receivables from customers and invoices to be issued	30.082	36.844	35.484
Bank collection orders to be collected	22.504	30.277	27.103
Credit notes to be issued	(42)	(68)	(15)
Total receivables from customers	52.544	67.053	62.572
Reserve for bad debts	(1.793)	(954)	(1.195)
Net receivables	50.751	66.099	61.377

Receivables show a reduction from Euro 61.4 million as of December 31, 2003 to Euro 50.8 million as of June 30, 2004. This reduction is due to the drop in sales.

The average receivables rotation is approximately 95 days, compared to 99 in 2003. The decrease is due to the improvement in credit collection.

Trade receivables have been adjusted directly through the bad debt reserve, the provision being made with reference to specific cases of insolvency. At June 30, 2004 the reserve was Euro 1,8 million.

Receivables from associated company

This amount is totally related to Telcom Srl.

Other Receivables

This item includes the following:

Other receivables			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
VAT Receivables	32	0	50
Credit notes to be received from suppliers	8.318	11.938	9.915
Other	1.364	1.523	1.436
Total	9.714	13.461	11.401

The strong decrease in receivables from others going from Euro 11,4 million as of December 31, 2003 to Euro 9,7 million as of June 30, 2004 is mainly due to reduction in credit notes to be received, partly attributable to the decrease in purchases registered in the period compared to the previous year, and partly to the reduction in the settlement terms of such credit notes from the suppliers.

The caption "Credit notes to be received from suppliers", relates to credit notes to be received by the company from its principal suppliers, mainly hardware products, for discounts and promotional campaigns based on the contracts in force between the companies of Algol Group and these suppliers. Management periodically reviews the collectibles of these amounts, and makes a provision in case of risk.

The caption "Other" includes the remaining portion of receivables referred to the sale of Telcom S.r.l., totaling Euro 794 thousand. On the basis of the disposal agreement the settlement of this credit is strictly related to the assets of the company Telcom S.r.l. Tax credit totaling Euro 650 thousand are included in the assets of Telcom S.r.l. and after the disposal of the company Euro 30 thousand have been collected, with an extraordinary gain of Euro 60 thousand. The tax administration recently recognized the tax credit validity and according to this situation Algol Board estimates that the assets value of Telcom S.r.l. will be realized and the price of the disposal settled. This credit is due beyond one year.

Financial assets – Other securities

These are liquid short-term investments; at June 30, 2004 the value of these investments amounted to Euro 3 million; the detail of these investments as of June 30, 2004, is shown below:

- Debentures issued by a primary bank amounting to Euro 1 million;
- Units of investment funds amounting to Euro 1.5 million;
- Shares of Banca Popolare di Lodi amounting to Euro 135 thousand;
- Insurance policy amounting to Euro 298 thousand

The comparison between the purchase cost of these investments and the market value didn't show significant differences.

Algol S.p.A. pledged part of the securities, amounting to Euro 2,8 million, in relation to the guarantee issued by a bank on behalf of AlgolProducts SpA in connection to the extended payments of goods purchases.

Cash and banks

The change in liquidity deriving from operating activity and investment is analyzed in the consolidated statement of cash flows.

Accrued income and prepaid expenses

Accrued income and prepaid expenses are shown in the table below:

Accrued income and prepaid expenses			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Deferred cost	59	217	52
Pre-paid expenses on rent and leases	46	1	28
Insurance premiums	19	109	0
Pre-paid expenses on telephone charges	0	0	2
Total	124	327	82

The increase in " Accrued income and prepaid expenses " from Euro 82 thousand to Euro 124 thousand is due to insurance premium and leases.

Liabilities and Shareholders' Equity

Shareholders' equity

Changes in shareholders' equity are shown below:

Thousands of Euro										
	Share capital	Share premium reserve	Legal reserve	Other reserves	Accumulated deficit	Result for the period	Reserve for covering interim losses	Total Group Net Equity	Minority interest capital and services	Total Net Equity
Shareholders' equity										
Balance at 31.12.2003	1.821	17.811	258	994	(10.183)	(1.852)	-	8.849	41	8.890
Allocation of previous year's loss					(1.852)	1.852		-		-
Result for the period relating to the Group						(2.998)		(2.998)	-	(2.998)
Allocation reserve		(7.809)	107	-	7.492	-	210	-		-
Result for the period relating to minority interest									(2)	(2)
Balance at 30.06.2004	1.821	10.002	365	994	(4.543)	(2.998)	210	5.851	39	5.890

The share capital of the parent company, Algol SpA, is fully paid up and totalled Euro 1,820,844.48 at June 30, 2004, represented by 3,501,624 ordinary shares with nominal value Euro 0.52 each. The loss per share is Euro 0.86.

The heading "Other Reserves" includes retained earnings.

According to the decision of the Algol shareholders meeting held in June 1, 2004, the following operation have been put in place.

- The parent company net income of Euro 2.1 million as of December 31, 2003 has been allocated as follows:
 - 5% (totalling Euro 107 thousand) to legal reserve,
 - Euro 2 million for the partial coverage of prior losses
- Coverage of total losses of Euro 7.8 million, using the share premium reserve, whose balance of Euro 17.8 million is thus reduced to Euro 10 million.

The reconciliation of the parent company's shareholders' equity and loss and consolidated shareholders' equity and loss is shown below.

Reconciliation of shareholders' equity	Net Equity 30/06/2004	Result for the period	Net Equity 31/12/2003
Parent company financial statements	12.907	(485)	13.392
Results of the companies included in the consolidation area.	(1.050)	(2.007)	957
Amortization and write down of differences on consolidation.	(3.800)	(490)	(3.310)
Effects on consolidated accounts of sales of Epsilon Srl and Telecom Srl.	(72)	0	(72)
Elimination of accelerated depreciation effect.	36	(15)	51
Dividends paid by consolidated subsidiaries and other.	(2.170)		(2.170)
Minority Interest.	39	(2)	41
Consolidated financial statements	5.890	(2.999)	8.889

Reserves for risks and charges

These reserves include provisions for possible negative events:

Reserves for pensions and similar

This reserve, equal to Euro 36.4 thousand, reflects the indemnity that must be paid to agents in the case of resolution of the agent's contract, in accordance with current legislation.

Deferred taxes

These amount to Euro 37 thousand and consist almost entirely of deferred taxes related to the use of Italian accounting principles and valuation criteria in the financial statements of the subsidiary Algot Deutschland GmbH and it is also related to the elimination of the accelerated depreciation effects recorded in the company AlgotProducts S.p.A..

Other risks and charges

Other reserves for risks and charges at June 30, 2004 came to Euro 353 thousand and included the following:

- Provisions totaling Euro 211 thousand, for future charges relating to the company AlgotDeutschland GmbH.
- Provisions totaling Euro 105 thousand, pursuant to the sale of receivables for Euro 116 thousand, later considered to be irrecoverable, to IBM Servizi Finanziari. The amount paid by the factoring company exceeded the non-recourse granted ceiling, and it is therefore at risk.
- A provision of Euro 20 thousand for future charges relating to the company Epsilon France Sas
- Provision of Euro 17 thousand related to the customer Forum Sparta, in contentious procedure.

Employee severance indemnity

Changes in this reserve are shown below:

Employees' severance indemnity			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Opening balance	881	777	788
Disposal of Telcom Srl	-	-	(11)
Utilization for termination of employees	(118)	(56)	(119)
Utilization for advanced payments	-	-	(13)
Provision for the period	115	127	236
Total	879	848	881

The above reserve is determined in compliance with employment contracts and applicable laws.

Bank borrowing

Interest on bank borrowings, prevalently short term (bank overdrafts, credit lines not confirmed) is charged at varying interest rates, recorded in the income statement on an accruals basis.

The net financial position of the group at June 30, 2004, as detailed in the table below, is a negative Euro 35.8 million, compared to Euro 34.6 million at December 31, 2003. Such amount included advances related to receivables assigned with recourse to factoring companies, totalling Euro 7 million as at June 30, 2004.

Securities for Euro 2.8 million Are pledged.

Net Financial Position			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Bank and postal deposits	3,013	3,051	3,117
Cash and cash equivalents	54	11	6
Short-term securities	3,037	2,918	2,982
Short-term bank borrowings	(34,807)	(42,107)	(34,978)
Short-term financial position	(28,703)	(36,128)	(28,873)
Short-term payables to other lenders	(7,092)	0	(5,703)
Long-term payables to other lenders	0	(155)	0
Net financial position	(35,795)	(36,283)	(34,576)

Payables to other lenders

This caption as of June 30, 2004 consists of 7 million and is related to the prepayment of the receivables transferred with recourse to the factoring companies.

Payables to associated company

This amount is totally due to the company Telcom Srl.

Trade Payables

These are analyzed in the table below:

Trade Payables			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Domestic suppliers	24,125	43,735	33,621
Foreign suppliers	10,779	12,182	13,769
Invoices to be received	1,033	1,810	524
Credit notes to be received	(496)	(445)	(796)
Total	35,441	57,282	47,118

Trade payables came to Euro 35.4 million, a decrease of Euro 11.7 million compared to December 31, 2003. This reduction reflects the decrease in the cost of goods sold. Credit notes to be received are referred to goods not in accordance with the purchase contract conditions.

Taxes payable

The amounts have been calculated in accordance with current laws.

Taxes payable include, IRAP of Euro 106 thousand, withholding tax of Euro 119 thousand, VAT payable of Euro 1.4 million, and other taxes of Euro 230 thousand.

Taxes Payables			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Income tax payables	106	566	384
Employees' IRPEF	119	101	144
VAT payable	1.358	1.515	453
Tax advances	0	(426)	(287)
Other	230	275	391
Total	1.813	2.031	1.085

The heading "Other" includes Euro 201 thousand for the income tax amnesty as per art. 9 Law no. 289/2002 and Law no.350/2003, to which Algol S.p.A. and AlgolProducts S.p.A. adhered in 2003. As a consequence, fiscal years up to December 31, 2002 are cleared for these two legal entities.

Payables to health and social security institutes

These consist principally of payables to INPS and INAIL.

Other payables

Other payables are broken down in the following table and show a not significant increase during the six-month period.

Other Payables			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Payable to employees	861	812	705
Payable to statutory auditors	0	7	0
Other payables	65	259	142
Total	926	1.078	847

Accrued expenditure and deferred income

These are represented by the following amounts:

Accrued expenditure and deferred income			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Deferred income	54	117	17
Interest income	3	4	0
Other	1	30	40
Total	58	151	57

Memorandum account

Memorandum accounts

Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
Unsecured guarantees	26.322	2.729	26.322
Secured guarantees	2.800	0	2.500
Commitments to purchase and sell <i>Commitments on forward currency purchases</i>	8.311	8.077	9.938
Total	37.433	10.806	38.760

The commitments refer mainly to the forward currency purchase contracts stipulated in order to hedge potential exchange rate risks arising from the fluctuation between the USD and the Euro, in relation to the purchase of goods from USA suppliers. The reduction is due to the drop in sales.

The memorandum accounts include unsecured guarantees totalling Euro 26.3 million, of which Euro 2,8 million referred to warranties and Euro 23.5 million referred to letters of patronage, issued by Algol Spa on behalf of other group's companies and in relation to bank credit lines. For the pledge issued by Algol SpA, please refer to the comments included in the caption "financial assets-other securities".

Intragroup receivables and payables, costs and revenues

Receivables and payables, costs and revenues between group companies are eliminated, as are intragroup profits and losses.

Goods and service transactions taking place during the six month period between group companies were worth Euro 2.3 million, of which the service activities rendered to Group companies were worth Euro 1.6 million, while the sales of goods amount to Euro 767 thousand ; outstanding receivables and payables generated by these transactions as of June 30, 2004 were Euro 4.3 million .

In addition, receivables and payables of a financial nature between group companies totalled approximately Euro 11.6 million; interest related to these amounts in the six month were Euro 191 thousand.

These transactions were carried out at normal market conditions.

Income statement

Below are some comments on the key income statement items.

Value of production***Revenues from sales and services***

These are shown by country below:

Revenues from sales and services			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2003
European countries	80.303	98.296	184.464
Non-European countries	16	0	906
Total	80.319	98.296	185.370

The revenues are in large part from the Euro zone of the European Union. Italy represents approximately 83% of the group's sales volume, followed by Germany (13%) and France (4%).

Of total group revenues, 96,7 % come from the sale of hardware products (approximately Euro 77.7 million), while revenues for services were Euro 2.6 million or 3,3% of the total.

Please refer to the Management Report for further details.

Costs of goods sold

Cost of good sold				
Thousand of Euro	30.06.2004	30.06.2003	change	change %
Revenues	80.319	98.296	(17.977)	-9,7%
Purchases of goods for resale	74.722	91.874	(17.152)	-10,4%
Changes in Inventories	(825)	(2.477)	1.652	37,7%
Gross Margin	6.422	8.899	(2.477)	-15,0%
	8,0%	9,1%		

The reduction in purchases reflects the general decrease in sales; the gross margin decreased from 9,1% in first semester of 2003 to 8% in the same period of 2004.

Costs of services

Costs for outside services amount to Euro 3.3 million and include the following items:

Cost of Outside Services			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2002
Legal, notarial and advisory costs	567	458	852
Freight	630	793	1.502
Insurance	124	147	234
Commissions	109	216	591
Directors' and Statutory Auditors' emoluments	255	258	677
Non-group technical and commercial services	730	786	1.120
Telephone charges	249	216	477
Advertising	194	119	437
Other	450	401	1.598
Total	3.308	3.394	7.488

The decrease in cost of services relates mainly to the reduction of Freight and Commissions due to the reduction of sales.

The caption "Other" includes the charge from factoring companies.

The decrease in directors' and statutory auditors' emoluments is due to the reduction in the number of members.

Personnel costs

Personnel costs as of June 30, 2004 increased by 1,7% compared to the same period of previous year.

The number of employees as of June 30, 2004 was 142 units. The average number of employees in 2004 was 143 and the breakdown per level is as follows:

Managers	3
Middle Managers	18
Employees	122

The Group also employs agents and collaborators mainly in the technical and commercial departments. These professionals are hired under independent consultant contracts that do not include severance indemnity nor retirement funds or "profit sharing" agreements.

Financial income and charge

Financial Income			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2002
Income on securities	16	19	35
Exchange gains	915	631	923
Bank interest income	34	43	0
Capital gain for disposal Telcom Srl	0	66	67
Dividend from subsidiary companies	0	0	976
Other interest income	340	273	762
Total	1,305	1,032	2,763

The amount of Euro 340 thousand in "Other interest income" relates to a financial rebate from the vendors

Interest charges and other financial charges			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2002
Interest charges and other financial charges	1,452	1,308	2,812
Exchange losses	828	430	1,245
Total	2,280	1,738	4,057

Compared to the six months ended June 30, 2003, interest charges raised of Euro 144 thousand, owing to the increased activities with factoring companies.

The net 2004 exchange gain is Euro 88 thousand compared with a gain of Euro 201 thousand as of June 30, 2003.

Extraordinary income and charges

Extraordinary Income			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2002
Gains on disposal of fixed assets	0	0	13
Extraordinary income	49	165	852
Total	49	165	865

Extraordinary Charges			
Thousands of Euro	30.06.2004	30.06.2003	31.12.2002
Extraordinary expenses	61	214	317
Capital losses on disposal of fixed assets	2	0	0
Taxes related with previous years	0	121	379
Total	63	335	696

- Extraordinary income amounts to Euro 49 thousand and relates to adjustments to accruals and reimbursements from suppliers, recorded in prior periods.
- Extraordinary charges amount to Euro 63 thousand and relates to additional costs not recorded in prior fiscal year.

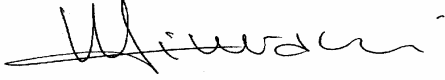
Income taxes

Income taxes for the period amount to Euro 63 thousand. Although the group recorded a loss, taxes are due primarily because of non-deductible items for IRAP purposes.

Anticipated taxes refer to the provision to the inventories reserve posted in the company AlgoProducts S.p.A.; this provision creates a temporary difference between result for the period and the taxable income.

Significant events after the end of the year

Please refer to the Management Report for details.

A handwritten signature in black ink, appearing to read 'Maurizio Liverani', with a stylized flourish at the end.

ALGOL SPA - Group Holding Company
Ing. Maurizio Liverani
(Chairman and C.E.O.)

Interim unconsolidated balance sheet and income statement of Algol SpA as of and for the six -month period ended June 30, 2004.

BALANCE SHEET (Amounts in Euro)				
		30/06/2004	30/06/2003	31/12/2003
ASSETS				
(B)	Fixed Assets			
I	Intangible assets			
1	Start-up costs	22.739	37.508	30.124
2	R&D and Advertising costs	68.941	114.902	91.922
3	Industrial patents and intellectual property rights	55.750	35.117	45.879
7	Other	42.991	47.555	42.693
	Total	190.421	235.082	210.617
II	Tangible assets			
2	Plant and equipments	25.167	21.948	28.983
4	Other assets	364.084	514.199	465.045
	Total	389.251	536.147	494.027
III	Financial fixed assets			
1	Investments in:			
	(a) Subsidiary companies	14.313.641	14.408.655	14.313.641
	(b) Associated companies	135.014		
	(d) Other companies	19.160	18.908	153.922
	Total	14.467.815	14.427.563	14.467.563
2	Receivables:			
	(d) From others due beyond one year	51.462	48.993	49.471
	Total	51.462	48.993	49.471
3	Other securities	0	310	0
	Total	0	310	0
	Total fixed assets	15.098.949	15.248.095	15.221.678
(C)	Current assets			
I	Inventory			
4	Finished goods for sale	26.216	25.385	24.490
	Total	26.216	25.385	24.490
II	Receivables			
1	Trade account receivables			
	Due within one year	534.653	798.113	676.960
	Due beyond one year	0	3.585	0
2	Subsidiary company receivables			
	Due within one year	5.045.134	6.897.329	6.609.904
3	Associated company receivables			
	Due within one year	61.218	52.755	24.829
4bis	Prepaid taxes			
	Due within one year	559.930	0	975.938
5	Other receivables			
	Due within one year	5.826	92.899	50.216
	Due beyond one year	794.227	919.227	919.227
	Total	7.000.988	8.763.908	9.257.074
III	Current financial assets			
6	Other securities	1.898.513	1.872.951	1.846.352
	Total	1.898.513	1.872.951	1.846.352
IV	Cash at bank and on hand			
1	Bank and postal deposit	136.121	210.716	203.765
3	Cash and cash equivalents	7.406	3.150	1.726
	Total	143.527	213.866	205.491
	Total current assets	9.069.244	10.876.110	11.333.407
(D)	Accrued income and prepaid expenses			
(b)	Other accrued and prepaid expenses	33.075	20.947	49.465
	Total accrued income and prepaid exp.	33.075	20.947	49.465
	Total assets	24.201.268	26.145.152	26.604.550

SHAREHOLDERS' EQUITY AND LIABILITIES				
(A)	Shareholders' equity			
I	Share capital	1.820.844	1.820.844	1.820.844
II	Share premium reserve	10.002.734	17.811.325	17.811.325
IV	Legal Reserve	365.356	258.228	258.228
V	Reserve of treasury shares in portfolio	0	8.320	0
VII	Other reserve	993.747	985.427	993.747
VIII	Retained earnings (accum.deficit)	0	(9.634.487)	(9.634.487)
IX	Net income (loss) for the period	(484.840)	(217.978)	2.142.538
	Reserve for covering interim losses	209.515	0	0
	Total Shareholders' Equity	12.907.356	11.031.680	13.392.197
(B)	Provisions for contingent liabilities and charges			
3	Other:			
	e) Other risks	122.100	355.100	122.100
	Total reserve for risks and charges	122.100	355.100	122.100
(C)	Employee severance reserve	369.795	325.555	339.479
(D)	Payables			
3	Bank borrowings			
	Due within one year	92.112	11.974	191.493
4	Payables to other lenders			
	Due beyond one year	0	154.937	154.937
6	Trade payables	676.995	1.006.601	773.663
8	Payables to subsidiaries	9.091.816	12.150.359	10.662.916
9	Payables to associated companies	200.426	407.009	206.071
11	Taxes Payables	270.538	185.975	338.461
12	Social security agencies payable	49.976	59.240	61.942
13	Other payables	417.154	382.268	356.882
	Total payables	10.799.017	14.358.363	12.746.365
(E)	Accrued expenditure and deferred income			
(b)	Other accrued expenditure and deferred income	3.000	74.455	4.410
	Total accrued expenditure and deferred income	3.000	74.455	4.410
	Total liabilities	24.201.268	26.145.152	26.604.550
	Memorandum accounts			
	1)Unsecured guarantees	26.321.864	17.935.864	23.522.000
	2)Secured guarantees	1.800.000	0	1.500.000
	Total memorandum accounts	28.121.864	17.935.864	25.022.000

	30/06/2004	30/06/2003	31/12/2003
INCOME STATEMENT			
(A) Production value			
1 Revenues from sales of goods and services	2.091.032	2.733.582	5.240.848
5 Other revenues and income:			
(b) Other revenues	15.617	0	95.632
Total production value	2.106.649	2.733.582	5.336.480
(B) Production costs			
6 Raw materials, auxiliaries, consumables and goods for resale	37.105	219.485	395.327
7 Services	1.004.388	1.382.587	2.645.031
8 Use of assets of third parties	242.982	229.156	488.651
9 Personnel costs:			
(a) Salaries and wages	600.205	622.675	1.175.345
(b) Contributions	194.548	185.657	380.156
(c) Severance indemnity	47.076	49.175	92.076
(e) Other costs	77.187	24.068	48.241
10 Amortization, depreciation and write downs:			
(a) Amortizations of intangible assets	53.734	68.204	157.978
(b) Depreciation of tangible assets	114.948	138.078	277.108
(d) Write down of receivables among current assets and liquid funds	0	0	4.175
11 Changes in Stock of Raw materials, auxiliaries, consumables & goods for resale	(1.726)	(13.737)	(12.842)
12 Accruals for liabilities	0	0	17.000
14 Other operating expense	37.095	72.684	113.894
Total costs of production	2.407.542	2.978.032	5.782.141
Difference between value and cost of production	(300.893)	(244.450)	(445.661)
(C) Financial income and charges			
15 Income on investments			
(a) Dividends from subsidiaries	0	0	2.710.938
(d) Other investment income	511	239.153	239.153
16 Other financial income:			
(c) From securities held as current assets other than equity investments	15.600	19.230	35.175
(d) Other income			
Interest and commission from subsidiaries	37.981	39.676	78.318
Interest and commission from others and sundry income	6.603	11.631	28.006
17 Interest and other financial charges			
(a) Interest and commission to subsidiaries	152.676	171.026	323.904
(b) Interest and commission in associated companies	0	1.076	2.922
(d) Interest and commission to others and sundry charges	26.422	37.175	97.599
Total financial income and charges (15+16-17)	(118.403)	100.413	2.667.165
(D) Adjustments to financial assets			
Total adjustments	0	0	0
(E) Extraordinary gain and losses			
20 Gain			
(a) Gains on disposals	0	1.656	1.656
(c) Other income	1.932	127.318	400.868
21 Losses			
(a) Losses on disposals	1.604	135	135
(b) Other expenses	29.872	64.415	108.517
(c) Taxes of previous year	0	98.366	320.692
Total extraordinary items (20-21)	(29.544)	(33.941)	(26.820)
Income before taxes	(448.840)	(177.978)	2.194.684
22 Income Taxes	(36.000)	(40.000)	(52.146)
23 Income (loss) for the period	(484.840)	(217.978)	2.142.538