

**QUARTERLY REPORT FOR THE THREE MONTHS  
ENDED 30 SEPTEMBER 2006**



## **CONSOLIDATED FINANCIAL STATEMENTS**

**CONSOLIDATED INCOME STATEMENT**  
for the three months ended 30 September 2006

(€000)	Note	2006		2005	
		Q3	9M	Q3	9M
Revenues	1	19,138	46,045	7,651	18,785
Other income		-	13	51	90
<b>Total revenue</b>		<b>19,138</b>	<b>46,058</b>	<b>7,702</b>	<b>18,875</b>
Movement in work in progress, semi-finished and finished goods		(5)	(3)	9	4
Raw materials	2	(388)	(983)	(477)	(924)
External services	3	(13,915)	(35,061)	(4,345)	(9,773)
Rentals and leases	4	(353)	(1,071)	(328)	(1,062)
Staff costs	5	(2,990)	(9,054)	(2,392)	(7,316)
Amortisation and depreciation	6	(206)	(627)	(229)	(696)
Impairment charges/reversal of impairment charges on non-current assets		(35)	(36)	-	-
Other costs	7	(315)	(916)	(225)	(638)
Finance income	8	307	661	554	1,001
Finance costs	8	(43)	(981)	(58)	(155)
<b>PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS</b>		<b>1,195</b>	<b>(2,013)</b>	<b>211</b>	<b>(684)</b>
Taxation	9	(632)	(1,673)	(576)	(863)
<b>NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS</b>		<b>563</b>	<b>(3,686)</b>	<b>(365)</b>	<b>(1,547)</b>
Net profit/(loss) from discontinued operations		-	-	-	-
<b>NET PROFIT/(LOSS) BEFORE MINORITY INTERESTS</b>		<b>563</b>	<b>(3,686)</b>	<b>(365)</b>	<b>(1,547)</b>
Net profit/(loss) attributable to minority interests		-	-	-	-
<b>NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY</b>		<b>563</b>	<b>(3,686)</b>	<b>(365)</b>	<b>(1,547)</b>
Earnings per share	10	0.14	(0.94)	(0.09)	(0.40)
Diluted earnings per share	10	0.14	(0.94)	(0.09)	(0.40)

## ANALYSIS OF CONSOLIDATED NET FUNDS AT 30 SEPTEMBER 2006

(€000)

	30 Sept 2006	30 June 2006	31 Dec 2005	30 Sept 2005
Current financial assets	15,748	17,817	19,761	24,406
Cash and cash equivalents	6,228	5,775	11,395	7,388
Current financial liabilities	(234)	(28)	(33)	(74)
<b>Net cash and cash equivalents (A)</b>	<b>21,742</b>	<b>23,564</b>	<b>31,123</b>	<b>31,720</b>
Medium/long-term borrowings	(193)	(193)	(193)	(221)
<b>Medium/long-term debt (B)</b>	<b>(193)</b>	<b>(193)</b>	<b>(193)</b>	<b>(221)</b>
<b>Net funds (A)+(B)</b>	<b>21,549</b>	<b>23,371</b>	<b>30,930</b>	<b>31,499</b>

**NOTES TO THE  
CONSOLIDATED FINANCIAL STATEMENTS**

## BASIS OF PRESENTATION

The Acotel Group's quarterly financial statements for the three months ended 30 September 2006 have been prepared under international financial reporting standards (IFRS), as issued by the International Accounting Standards Board (IASB), and in compliance with the related interpretations (IFRIC). The financial statements also take account of the guidelines established in Annex 3D to the Regulations for Issuers introduced by CONSOB Resolution no. 11971 of 14 May 1999 and subsequent amendments and additions.

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

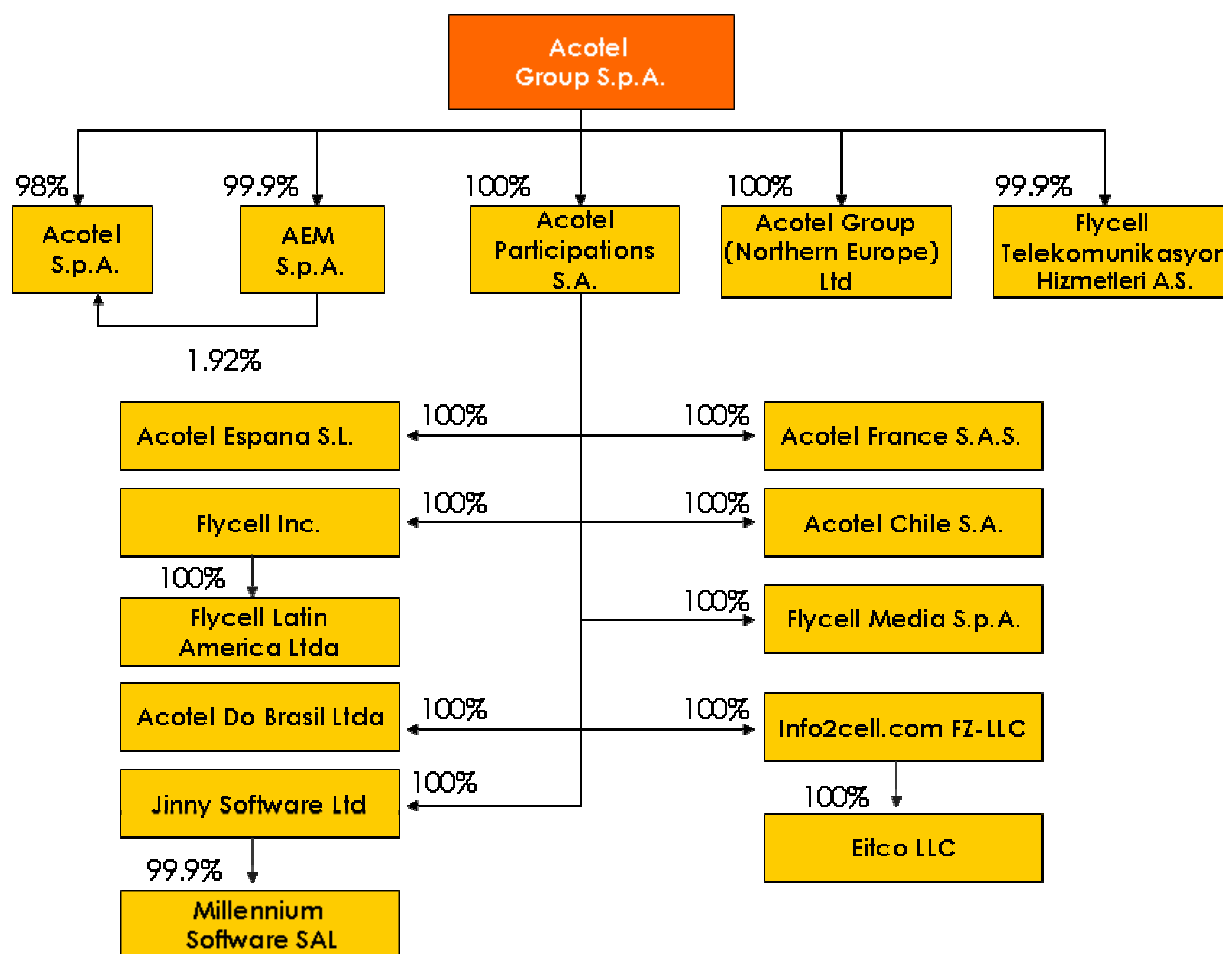
The consolidated financial statements for the three months ended 30 September 2006 have been prepared on the basis of the underlying accounting records at that date, as adjusted in accordance with the matching principle.

Preparation of these financial statements required management to make estimates and assumptions which, based primarily on internal records, essentially have an effect on revenues and costs that have yet to be confirmed by customers and suppliers. Above all, turnover generated by the subsidiary, *Flycell Inc.*, in September and certain related cost items include preliminary figures and estimates that have yet to be confirmed by the integrator, *mBlox Inc.*

Estimates and assumptions have been used also to quantify any refunds that may be payable to *B2C* customers. Further information on the method of calculation adopted is provided in the interim report for 2006.

In addition, certain evaluation processes, above all the most complex ones relating to the estimate of potential impairments of fixed assets, are generally only fully carried out during preparation of the annual financial statements, unless events or changes in circumstances indicate that there may be an impairment requiring an immediate evaluation of any loss.

The following table shows the structure of the Acotel Group at 30 September 2006:



The following table provides summary information on consolidated companies held, directly or indirectly, by *Acotel Group S.p.A.*, the Parent Company.

Company	Date of acquisition	Group's interest (%)	Registered office	Share capital	
				Currency	Amount
Acotel S.p.A.	28 April 2000	99.9% (4)	Rome	EURO	13,000,000
AEM Advanced Electronic Microsystems S.p.A.	28 April 2000	99.9%	Rome	EURO	858,000
Acotel Participations S.A.	28 April 2000	100%	Luxembourg	EURO	1,200,000
Acotel Chile S.A.	28 April 2000	100% (5)	Santiago, Chile	USD	17,310
Acotel Espana S.L.	28 April 2000	100% (5)	Madrid	EURO	3,006
Acotel Do Brasil LTDA	8 August 2000 (1)	100% (5)	Rio de Janeiro	BRL	1,868,250
Acotel France S.A.S.	22 October 2002 (1)	100% (5)	Paris	EURO	56,000
Jinny Software Ltd.	9 April 2001	100% (5)	Dublin	EURO	2,972
Millennium Software SAL	9 April 2001	99.9% (6)	Beirut	LPD	30,000,000
Info2cell.com FZ-LLC	29 January 2003 (3)	100% (5)	Dubai	Dh	18,350,000

Emirates for Information Technology Co.	29 January 2003	100% (7)	Amman	JD	710,000
Flycell Media S.p.A.	10 July 2002 (2)	100%	Rome	EURO	400,000
Flycell Inc.	28 June 2003 (1)	100% (5)	Wilmington	USD	100,000
Acotel Group (Northern Europe) Ltd	27 May 2004 (1)	100%	Dublin	EURO	101,000
Flycell Telekomunikasyon Hizmetleri A.S.	2 July 2005 (1)	99.9%	Istanbul	TRY	50,000
Flycell Latin America Conteúdo Para Telefonia Móvel LTDA.	6 June 2006 (8)	100%	Rio de Janeiro	BRL	250,000

- (1) The date of the company's entry into the Group coincides with its incorporation.  
(2) Prior to such date the Group held 50% of the company's share capital, posted to investments in associates.  
(3) Prior to such date the Group held 33% of the company's share capital, posted to investments in associates.  
(4) AEM owns 1.92% of the share capital.  
(5) Controlled via Acotel Participations S.A.  
(6) Controlled via Jinny Software Ltd.  
(7) Controlled via Info2cell.com LLC-FZ.  
(8) Controlled via Flycell Inc.

Net funds at 30 September 2006 have been compared with the corresponding amounts at 30 June 2006, 31 December 2005 and 30 September 2005.

### CONSOLIDATION PRINCIPLES

The consolidated quarterly financial statements include the financial statements of *Acotel Group S.p.A.* and those of its subsidiaries. Subsidiaries are defined as entities over which the Group has the power to govern the financial and operating policies.

The net profit or loss of subsidiaries acquired or sold during the year is included in the consolidated income statement from the effective acquisition date until the effective disposal date.

Profits and losses and revenues and expenses arising from intercompany transactions are eliminated.

The income statements of overseas subsidiaries based in countries outside the euro area are translated into euros using average exchange rates for the period, as published by the Italian Exchange Office.

### OTHER INFORMATION

This quarterly report is unaudited.

## NOTES TO THE INCOME STATEMENT

### Note 1 - Revenue

Revenue by business segment is as follows:

(€000)	2006		2005	
	Q3	9M	Q3	9M
SERVICES	17,384	42,145	5,906	14,956
DESIGN OF ICT EQUIPMENT	1,478	3,077	1,252	2,808
SECURITY SYSTEMS DESIGN	276	823	493	1,021
	<b>19,138</b>	<b>46,045</b>	<b>7,651</b>	<b>18,785</b>

### SERVICES

The Services business includes services supplied directly to end customers (B2C) and the activities carried out for telephone and commercial companies, and has the primary purpose of supplying value added services and content to mobile phone users.

A breakdown of service revenues is given in the following table:

(€000)	Q3			9M		
	2006	2005	Increase/ (Decrease)	2006	2005	Increase/ (Decrease)
B2C services	12,212	377	11,835	26,043	679	25,364
Network Operator services	4,248	4,177	71	13,073	11,496	1,577
Media services	499	264	235	1,592	698	894
Corporate services	425	1,088	(663)	1,437	2,083	(646)
<b>Total</b>	<b>17,384</b>	<b>5,906</b>	<b>11,478</b>	<b>42,145</b>	<b>14,956</b>	<b>27,189</b>

As in the previous quarter, during the third quarter of 2006 B2C services, which are accounted for net of estimated refunds, continue to be the most important service provided by the Group, despite the fact that the commercial launch took place under than a year ago. These revenues, which account for 70% of turnover from the Services business, include 12,090 thousand euros generated by the US subsidiary, *Flycell Inc.*, with the remainder generated by the subsidiaries, *Flycell Telekomünikasyon Hizmetleri A.Ş.*, *Info2cell.com FZ-LLC* and *Acotel S.p.A.*

Revenues from value added services (VAS) provided to network operators, amounting to 4,248 thousand euros, are essentially in line with the figure for the same period of 2005.

They primarily include revenues from services rendered by the subsidiary, *Acotel S.p.A.*, to *Telecom Italia*, which amount to 2,650 thousand euros in the third quarter, revenues from services rendered by the Brazilian subsidiary, *Acotel do Brasil*, to the Brazilian operators, *TIM Celular*, *TIM Sul*, *Maxitel* and *TIM Nordeste Telecomunicações*, amounting to 975 thousand euros, and revenues generated by activities carried out by *Info2cell* with the main mobile telephony operators in the Middle East, totalling 604 thousand euros.

Revenues from services provided to media companies, amounting to 499 thousand euros, are significantly up (89%) on the third quarter of 2005. Such revenues were generated in the Middle East by the subsidiary, *Info2cell* (278 thousand euros), in Italy by *Acotel S.p.A.* (139 thousand euros) via the supply of services connected to certain programmes run by the television broadcasters, *MTV*, *Mediaset*, *LA7* and *RAI*, and in Brazil (82 thousand euros) via the services provided by *Acotel do Brasil* to the radio broadcaster, *Radio Globo*. The above-noted increase is primarily due to the Middle-eastern subsidiary.

Revenues from corporate services amount to 425 thousand euros and regard 215 thousand euros earned by *Info2cell* as a result of its agreement with *Pepsi-Cola*, 137 thousand euros generated by the Italian operations of *Acotel S.p.A.*, which primarily serves banks, and 73 thousand euros deriving from services provided in Italy by the subsidiary, *AEM S.p.A.*, to *ACEA S.p.A.*. The decrease recorded in the third quarter of 2006, compared with the same period of the previous year, is exclusively linked to a reduction in revenues generated by *Info2cell*.

#### DESIGN OF ICT EQUIPMENT

Revenues from ICT equipment design in the third quarter of 2006 amount to 1,478 thousand euros, marking an increase of 18% on the same period of 2005. Revenues in this line of business are generated by *Jinny Software* from supply and maintenance contracts in place with mobile operators in the Middle East, Latin America, Africa, Asia and Europe.

#### SECURITY SYSTEMS DESIGN

Revenues from the design of electronic security systems amount to 276 thousand euros, representing a decrease compared with the third quarter 2005. Such revenues regard the installation, supply, maintenance and servicing of remote surveillance equipment installed at Italian police headquarters and at certain provincial branches of the Bank of Italy by the subsidiary, *AEM S.p.A.*.

A breakdown of the Group's revenue by geographical segment is as follows:

	2006				2005			
	Q3	%	9M	%	Q3	%	9M	%
(€000)								
NORTH AMERICA	12,090	63.2%	25,785	56.1%	329	4.3%	467	2.5%
ITALY	3,299	17.2%	9,822	21.3%	3,400	44.5%	9,244	49.2%
MIDDLE EAST	1,838	9.6%	4,599	10.0%	1,985	25.9%	4,455	23.7%
LATIN AMERICA	1,351	7.1%	4,042	8.7%	900	11.8%	2,110	11.2%
AFRICA	442	2.3%	783	1.7%	331	4.3%	556	3.0%
OTHER EUROPEAN COUNTRIES	74	0.4%	405	0.9%	623	8.1%	1,477	7.9%
ASIA	44	0.2%	609	1.3%	83	1.1%	476	2.5%
	<b>19,138</b>	<b>100%</b>	<b>46,045</b>	<b>100%</b>	<b>7,651</b>	<b>100%</b>	<b>18,785</b>	<b>100%</b>

The breakdown of revenue for the third quarter of 2006 by geographical segment highlights how important the United States market has become for the Acotel Group in such a short time. Due to the revenues earned from services rendered during the period by the subsidiary, *Flycell Inc.*, the proportion of the Group's total revenue generated in North America has risen from the 4.3% in the third quarter of 2005 to 63.2% in the same period of 2006. As a result, revenues generated in Italy, although substantially unchanged in absolute terms, have fallen from 44.5% of the total in the third quarter of 2005 to 17.2% in the same period of 2006.

### Note 2 – Raw materials

The cost of raw materials during the period, amounting to 388 thousand euros, refers principally to the purchase of materials for the construction of telecommunications equipment by *Jinny Software* (340 thousand euros).

### Note 3 – External services

The cost of external services amounts to 13,915 thousand euros for the third quarter of 2006, compared with 4,345 thousand euros in the same period of 2005. The increase is essentially due to the operating methods chosen by *Flycell Inc.* to develop its business in the relevant market. This has entailed considerable promotional expenses (5,991 thousand euros) to raise awareness of the company's services in the market and increase its customer base, and substantial costs (4,864 thousand euros) charged by mobile operators and the integrator.

The next most significant items regard the cost of acquiring content from external content providers, totalling 1,027 thousand euros, and business, administrative, legal and technical consulting fees incurred by Group companies, amounting to 383 thousand euros. These fees regard business consultancy, technical and technological updates of the systems used in managing and developing services and equipment, and the outsourcing of certain administrative and legal processes.

Service costs also include travel expenses of 275 thousand euros, the cost of purchasing SMS packages from mobile operators (253 thousand euros), remuneration paid to directors and statutory auditors (149 thousand euros), telephone expenses (137 thousand euros), and the cost of connecting to terrestrial and satellite transmission networks for the provision of value added services (87 thousand euros).

The balance reflects overheads (utilities, management and maintenance of the Group's operating properties, insurance, travel expenses, etc.) incurred by the Group in its day-to-day operations.

#### Note 4 – Rentals and leases

The cost of rentals and leases, amounting to 353 thousand euros, mainly includes rentals on offices occupied by Group companies.

#### Note 5 - Staff costs

Staff costs include:

(€000)	2006		2005	
	Q3	9M	Q3	9M
Salaries and wages	2,255	6,752	1,851	5,461
Social security contributions	401	1,276	327	1,116
Staff termination benefits	61	185	63	184
Finance costs	(3)	(22)	(8)	(25)
Other costs	276	863	159	580
<b>Total</b>	<b>2,990</b>	<b>9,054</b>	<b>2,392</b>	<b>7,316</b>

The number of staff by category at 30 September 2006, compared with the average number for the third quarters and first nine months of 2006 and 2005, is reported in the following schedule:

	30 Sept 2006	Average Q3 2006	Average Q3 2005	Average 9M 2006	Average 9M 2005
Managers	19	19	14	18	14
Supervisors	30	30	30	29	29
White- and blue-collar staff	235	234	202	224	190
<b>Total</b>	<b>284</b>	<b>283</b>	<b>246</b>	<b>271</b>	<b>233</b>

The geographical distribution of the Group's staff is shown below:

	30 Sept 2006	30 Sept 2005
Italy	95	95
Ireland	24	24
Lebanon	49	32
France	-	2
Brazil	16	16
United Arab Emirates	15	19
Jordan	50	54
USA	35	12
<b>Total</b>	<b>284</b>	<b>254</b>

The increase in staff costs in the third quarter of 2006, compared with the same period of 2005, is primarily connected with the expansion of the Group's overseas subsidiaries.

#### Note 6 - Amortisation and depreciation

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

(€000)	2006		2005	
	Q3	9M	Q3	9M
Amortisation of non-current intangible assets	68	203	80	220
Depreciation of property, plant and equipment	138	424	149	476
<b>Total</b>	<b>206</b>	<b>627</b>	<b>229</b>	<b>696</b>

Amortisation of non-current intangible assets mainly refers to amortisation of the software and licences utilised by various Group companies.

Depreciation of property, plant and equipment mainly refers to depreciation of the telecommunications equipment and infrastructures used by Group companies.

#### Note 7 – Other costs

Other costs amount to 315 thousand euros for the third quarter of 2006 and include 151 thousand euros for indirect taxes due from *Acotel do Brasil* in compliance with local legislation.

The balance includes other general expenses and charges incurred by Group companies in connection with their ordinary activities.

## Note 8 - Finance income and costs

Net finance income of 264 thousand euros for the third quarter of 2006 breaks down as follows:

(€000)	2006		2005	
	Q3	9M	Q3	9M
Interest income from investments	202	593	166	514
Interest income on bank deposits	24	51	38	75
Foreign exchange gains	79	8	336	350
Other interest income	2	9	14	62
<b>Total finance income</b>	<b>307</b>	<b>661</b>	<b>554</b>	<b>1,001</b>
Interest expense and bank charges	(32)	(108)	(49)	(117)
Foreign exchange losses	-	(842)	-	(12)
Other interest expense	(11)	(31)	(9)	(26)
<b>Total finance costs</b>	<b>(43)</b>	<b>(981)</b>	<b>(58)</b>	<b>(155)</b>
<b>Net finance income/(costs)</b>	<b>264</b>	<b>(320)</b>	<b>496</b>	<b>846</b>

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

## Note 9 – Taxation

Taxation for the period, amounting to 632 thousand euros, reflects estimated income taxes and deferred tax assets and liabilities recognised by Group companies.

## Note 10 – Earnings per share

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

(€000)	2006		2005	
	Q3	9M	Q3	9M
<b>Net profit/(loss) (€000)</b>	<b>563</b>	<b>(3,686)</b>	<b>(365)</b>	<b>(1,547)</b>
<b>Number of shares (000)</b>				
Shares in circulation at the start of the period *	3,916	3,916	3,916	3,961
Weighted average of treasury shares acquired/sold in the period	-	-	-	53
Weighted average of ordinary shares in circulation	<b>3,916</b>	<b>3,916</b>	<b>3,916</b>	<b>3,908</b>
<b>Basic and diluted earnings per share **</b>	<b>0.14</b>	<b>(0.94)</b>	<b>(0.09)</b>	<b>(0.40)</b>

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

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

### NET FUNDS

Net funds at 30 September 2006 amount to 21,549 thousand euros, marking a decline with respect to the other comparative amounts shown in the schedule on page 4 of this report. The decrease reflects the significant cost incurred in order to launch B2C services in the USA. The reduction in the third quarter of 2006 (1,822 thousand euros) is significantly lower than the decrease seen in the first half of 2006 (7,559 thousand euros). This primarily reflects the fact that the subsidiary, Flycell Inc., is, at least in part, beginning to be self-financing.

## DIRECTORS' FINANCIAL AND OPERATING REVIEW

### RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(€000)	Q3				9M			
	2006	2005	Increase/(Decrease)		2006	2005	Increase/(Decrease)	
Revenues	19,138	7,651	11,487	150%	46,045	18,785	27,260	145%
Other income	-	51	(51)	-100%	13	90	(77)	-86%
<b>Total revenue</b>	<b>19,138</b>	<b>7,702</b>	<b>11,436</b>	<b>148%</b>	<b>46,058</b>	<b>18,875</b>	<b>27,183</b>	<b>144%</b>
<b>Gross operating profit/(loss)</b>	<b>1,172</b>	<b>(56)</b>	<b>1,228</b>	<b>2193%</b>	<b>(1,030)</b>	<b>(834)</b>	<b>(196)</b>	<b>-24%</b>
<b>Operating profit/(loss)</b>	<b>931</b>	<b>(285)</b>	<b>1,216</b>	<b>427%</b>	<b>(1,693)</b>	<b>(1,530)</b>	<b>(163)</b>	<b>-11%</b>
Net finance income/(costs)	264	496	(232)	-47%	(320)	846	(1,166)	-138%
<b>PROFIT/(LOSS) BEFORE TAX</b>	<b>1,195</b>	<b>211</b>	<b>984</b>	<b>466%</b>	<b>(2,013)</b>	<b>(684)</b>	<b>(1,329)</b>	<b>-194%</b>
<b>NET PROFIT/(LOSS) ATTRIBUTABLE TO PARENT COMPANY</b>	<b>563</b>	<b>(365)</b>	<b>928</b>	<b>254%</b>	<b>(3,686)</b>	<b>(1,547)</b>	<b>(2,139)</b>	<b>-138%</b>
Earnings per share	0.14	(0.09)	0.23	254%	(0.94)	(0.40)	(0.54)	-135%
Diluted earnings per share	0.14	(0.09)	0.23	254%	(0.94)	(0.40)	(0.54)	-135%

Compared with the same period of the previous year, the Acotel Group's performance in the third quarter of 2006 was marked by strong revenue growth (up 150%) and an improvement across all profit margins.

Revenue growth derived almost entirely from overseas markets and is primarily due to the commercial launch of the services provided by *Flycell Inc.*, which has continued to implement the development plan set in motion at the end of last year, becoming the principal source of revenue for the entire Group.

As previously described in earlier reports and in the notes to the income statement in this report, the development of this business requires significant expenditure on advertising, which has resulted in a substantial increase in service costs.

Consolidated gross operating profit of 1,172 thousand euros marks a significant improvement on the loss of 56 thousand euros recorded in the third quarter of 2005. This result reflects both the performance of the US subsidiary, which reports a gross operating profit for the period, and the ongoing rationalisation process taking place within the Group, which has involved a halt to certain overseas activities whose ability to generate earnings is viewed as too remote.

After amortisation and depreciation of around 206 thousand euros and impairment charges on non-current assets, totalling 35 thousand euros, consolidated operating profit of 931 thousand euros marks a substantial improvement on the loss of 285 thousand euros recorded in the third quarter of 2005.

After net finance income of 264 thousand euros and estimated taxation for the period, amounting to 632 thousand euros, net profit amounts to 563 thousand euros, compared with a net loss of 365 thousand euros incurred one year earlier.

A comparison of net profit for the period (563 thousand euros) with the losses incurred in the first and second quarters of 2006 (2,657 thousand euros and 614 thousand euros, respectively) confirms what has been said in the notes included in previous reports, regarding the effectiveness of the advertising carried out in order to launch the Group's B2C business. The model for this business envisages that the acquired customer continues to generate revenue for a considerable period after the related acquisition cost has been incurred.

### OUTLOOK

The Group's development strategy, as outlined in the interim report for the six months ended 30 June 2006, to which reference should be made, will remain unchanged in the immediate future. Growth targets, which will continue to be given major priority, will be pursued in both markets where the Group has an established presence and in new markets in which, by exploiting all available synergies, efforts will be made to reproduce the business model successfully developed in the USA.