

**QUARTERLY REPORT FOR THE THREE MONTHS
ENDED 31 MARCH 2007**



CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT for the three months ended 31 March 2007

(€000)	<u>Note</u>	<u>Q1 2007</u>	<u>Q1 2006</u>
Revenues	1	14,366	7,566
Other income		-	5
Total revenue		14,366	7,571
Movement in work in progress, semi-finished and finished goods		-	2
Raw materials	2	(221)	(218)
External services	3	(11,478)	(5,763)
Rentals and leases	4	(410)	(346)
Staff costs	5	(3,496)	(2,989)
Amortisation and depreciation	6	(170)	(192)
Impairment charges/reversal of impairment charges on non-current assets		-	(1)
Other costs	7	(268)	(253)
Finance income	8	264	222
Finance costs	8	(128)	(282)
PROFIT/(LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		(1,541)	(2,249)
Taxation	9	(685)	(408)
NET PROFIT/(LOSS) FROM CONTINUING OPERATIONS		(2,226)	(2,657)
Net profit/(loss) from discontinued operations		-	-
NET PROFIT/(LOSS) BEFORE MINORITY INTERESTS		(2,226)	(2,657)
Net profit/(loss) attributable to minority interests		-	-
NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY		(2,226)	(2,657)
Earnings per share	10	(0.57)	(0.68)
Diluted earnings per share	10	(0.57)	(0.68)

ANALYSIS OF CONSOLIDATED NET FUNDS AT 31 MARCH 2007

(€000)

	31 March 2007	31 December 2006
A. Cash and cash equivalents	6,162	10,620
B. Assets held for trading	8,483	8,236
C. Liquidity (A + B)	14,645	18,856
D. Other current financial assets	10,347	6,814
E. Current bank borrowings	(78)	(31)
F. Current portion of non-current debt	(29)	(29)
G. Current financial liabilities (E + F)	(107)	(60)
H. Net current funds (C+D+G)	24,885	25,610
I. Non-current financial liabilities	(163)	(163)
L. Non-current debt (I)	(163)	(163)
M. Net funds (H + L)	24,722	25,447

**NOTES TO THE
CONSOLIDATED
FINANCIAL STATEMENTS**

BASIS OF PRESENTATION

The Acotel Group's quarterly financial statements for the three months ended 31 March 2007 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 2006, integrated where necessary by the application of standards to take account of aspects not present at that date.

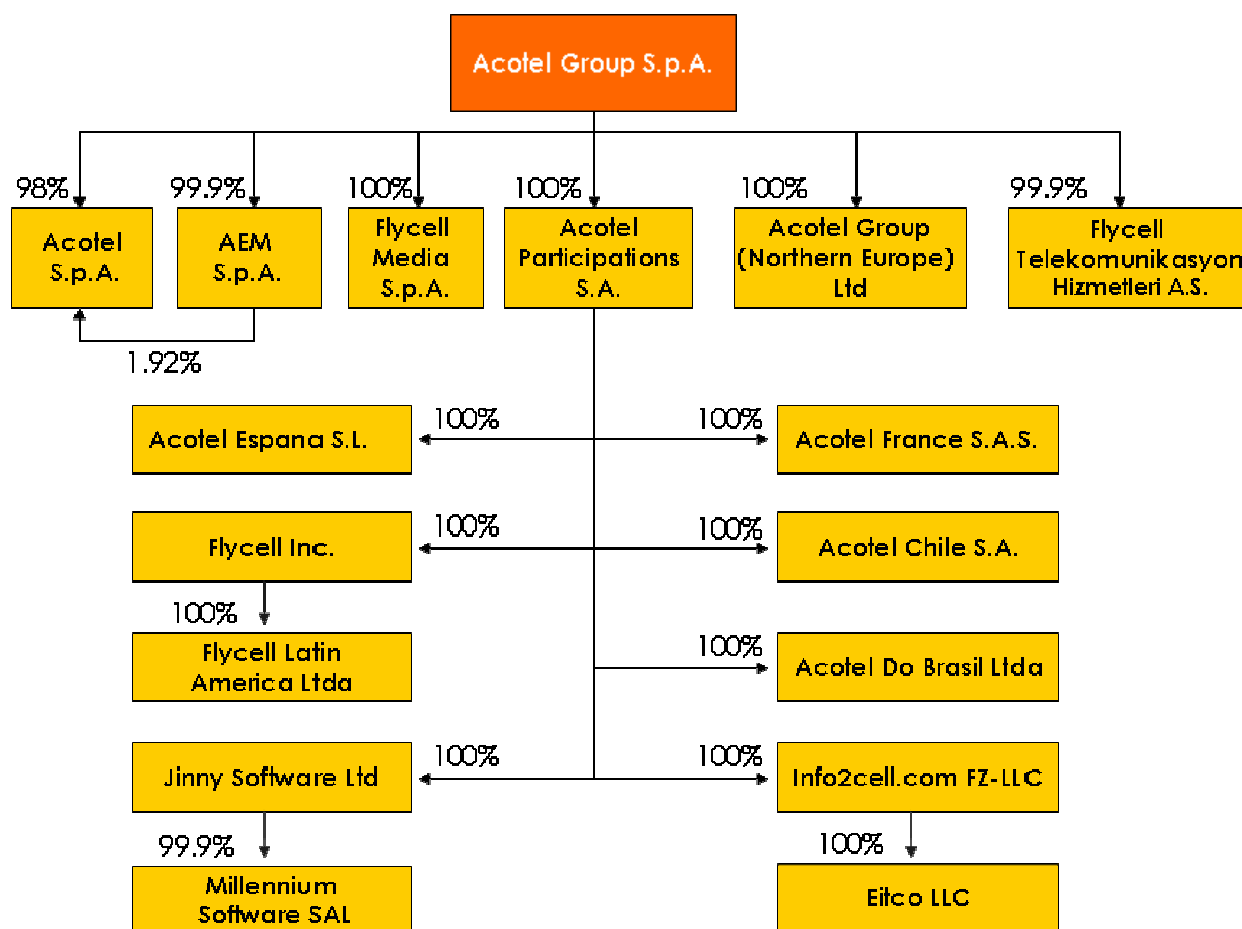
The consolidated financial statements for the three months ended 31 March 2007 have been prepared on the basis of the underlying accounting records at that date, as adjusted in accordance with the matching principle.

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 March and certain related cost items include preliminary figures and estimates that have yet to be confirmed by the mobile transaction network provider, *mBlox Inc.*

Estimates and assumptions are primarily used in order to account for any refunds that may be payable to B2C customers.

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 31 March 2007:



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 SpA	28 April 2000	99.9% (4)	Rome	EURO	13,000,000
AEM Advanced Electronic Microsystems SpA	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 SpA	10 July 2002 (2)	100%	Rome	EURO	400,000
Flycell Inc.	28 June 2003 (1)	100% (5)	Wilmington	USD	10,100,000
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 Telefonía 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 31 March 2007 have been compared with the corresponding amount at 31 December 2006.

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 period 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)	Q1 2007	%	Q1 2006	%
SERVICES	13,126	91.4%	6,795	89.8%
DESIGN OF ICT EQUIPMENT	924	6.4%	528	7.0%
SECURITY SYSTEMS DESIGN	316	2.2%	243	3.2%
	14,366	100%	7,566	100%

SERVICES

The “Services” segment 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)	Q1 2007	Q1 2006	Increase/ (Decrease)
B2C services	8,140	2,058	6,082
Network Operator services	4,475	4,091	384
Media services	346	448	(102)
Corporate services	165	198	(33)
Total	13,126	6,795	6,331

In the first quarter of 2007 B2C services, which account for around 62% of total turnover from the “Services” segment, continues to be, as in 2006, the main type of service provided by the Group. This revenue was generated primarily by the US subsidiary, Flycell Inc. (8,095 thousand euros), which, thanks to the customers acquired during the previous year and new customers added during the first quarter, reports strong growth in revenues compared with the same period of 2006. The remaining turnover from B2C was generated by the subsidiaries, *Flycell Telekomünikasyon Hizmetleri A.Ş.* and *Info2cell.com FZ-LLC*.

Revenues from value added services (VAS) provided to network operators, amounting to 4,475 thousand euros, are up 384 thousand euros (9%) on the same period of the previous year. They primarily include revenues from services rendered by the subsidiary, *Acotel SpA*, to *Telecom Italia*, amounting to 3,024 thousand euros for the period, revenues from services rendered by the Brazilian

subsidiary, *Acotel do Brasil*, to the Brazilian operators, *TIM Celular* and *TIM Nordeste Telecomunicações*, amounting to 921 thousand euros, and revenues generated by activities carried out by *Info2cell* with the main mobile telephony operators in the Middle East, totalling 522 thousand euros. The increase compared with the same period of the previous year is principally due to the performances of the Italian and Brazilian subsidiaries.

Revenues from services provided to media companies, amounting to 346 thousand euros, were generated in the Middle East by the subsidiary, *Info2cell* (188 thousand euros), and in Italy by *Acotel SpA* (111 thousand euros) via the supply of services connected to certain programmes run by the television broadcasters, *MTV*, *RAI* and *LA7*. Further revenues of this type were generated in Brazil and in Turkey by the subsidiaries, *Acotel do Brasil* and *Flycell Telekomünikasyon Hizmetleri A.Ş.*

Revenues from corporate services amount to 165 thousand euros and primarily regard turnover generated by services provided by *Acotel SpA* to Italian banks (139 thousand euros) and by *AEM SpA* to *ACEA SpA* (20 thousand euros).

DESIGN OF ICT EQUIPMENT

Revenues from ICT equipment design in the first quarter of 2007 amount to 924 thousand euros, marking an increase from the 528 thousand euros earned in the same period of 2006. Revenues in this line of business are generated by *Jinny Software*, above all on supply and maintenance contracts in place with mobile operators in North America, the Middle East, Africa, Latin America, Asia and Europe.

The 75% increase with respect to the same period of the previous year reflects the commercial rollout of the new platforms developed in 2006, the strengthening of the internal sales force, through the recruitment of sales staff, and the effects of agreements with channel partners, who include products developed by *Jinny Software* in their offerings.

SECURITY SYSTEMS DESIGN

Revenues from the design of electronic security systems amount to 316 thousand euros. These revenues, which were generated entirely in Italy by the subsidiary, *AEM SpA*, have risen 30% compared with the same period of 2006. They regard the installation, supply, maintenance and servicing of remote surveillance equipment installed at Italian police headquarters, at certain provincial branches of the Bank of Italy and for certain companies in the *ACEA Group*.

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

(€000)	Q1 2007		Q1 2006	
		%		%
NORTH AMERICA	8,277	57.6%	1,946	25.7%
ITALY	3,615	25.1%	3,287	43.5%
LATIN AMERICA	1,349	9.4%	924	12.2%
MIDDLE EAST	855	6.0%	1,135	15.0%
AFRICA	111	0.8%	101	1.3%
OTHER EUROPEAN COUNTRIES	97	0.7%	173	2.3%
ASIA	62	0.4%	-	-
	14,366	100%	7,566	100%

The geographical revenue breakdown for the first quarter of 2007 confirms the importance of the US market for the Group where, in addition to the subsidiary Flycell Inc., Jinny Software was active during the first quarter

Note 2 – Raw materials

The cost of raw materials during the period, amounting to 221 thousand euros, refers principally to the purchase of materials for the construction of telecommunications systems by *Jinny Software* (175 thousand euros).

Note 3 – External services

The cost of external services amounts to 11,478 thousand euros for the first quarter of 2007, compared with 5,763 thousand euros in the same period of 2006. The increase, which is closely linked to the growth in turnover, essentially reflects promotional costs (5,443 thousand euros) incurred by the US subsidiary, *Flycell Inc.*, in order to raise market awareness of its services and increase its customer base, and the costs (3,433 thousand euros) charged by US telephone operators and the mobile transaction network provider, *mBlox*, for transport and collection services.

In detail, in addition to the above-mentioned costs, the other significant cost items consist of expenses incurred for the acquisition of editorial content from external content providers (806 thousand euros), commercial, administrative, legal and technical consultancy fees incurred to support the Group's activities (332 thousand euros), and travel expenses (283 thousand euros).

Service costs also include the purchase of SMS packages from mobile operators (175 thousand euros), the cost of remuneration paid to directors and statutory auditors (144 thousand euros), and the cost of connecting to terrestrial and satellite transmission networks for the provision of value added services (81 thousand euros).

The balance refers to other general expenses (utilities, management and maintenance of the properties occupied by Group companies, insurance, etc.) connected to ordinary operations.

Note 4 – Rentals and leases

Rentals and leases amount to 410 thousand euros and mainly include rentals on offices occupied by Group companies.

Note 5 – Staff costs

Staff costs include:

<i>(€000)</i>	<u>Q1 2007</u>	<u>Q1 2006</u>	<u>Increase/ (Decrease)</u>
Salaries and wages	2,714	2,205	509
Social security contributions	457	437	20
Staff termination benefits	62	67	(5)
Finance costs	(6)	(10)	4
Other costs	269	290	(21)
Total	<u>3,496</u>	<u>2,989</u>	<u>507</u>

The number of staff by category at 31 March 2007 and a comparison of the average number for the first quarters of 2007 and 2006 are reported in the following schedule:

	31 March 2007	Average Q1 2007	Average Q1 2006
Managers	18	19	18
Supervisors	31	33	31
White- and blue-collar staff	260	257	214
Total	309	309	263

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

	31 March 2007	31 March 006
Italy	92	97
Ireland	25	25
Lebanon	57	34
France	-	2
Brazil	17	16
United Arab Emirates	17	17
Jordan	53	53
USA	44	23
Turkey	2	-
Malaysia	2	-
Total	309	267

As noted above, the increase in staff costs is essentially due to the greater number of people employed by the Group, which in turn reflects the Group's expansion, above all overseas.

Note 6 – Amortisation and depreciation

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

(€000)	Q1 2007	Q1 2006	Increase/ (Decrease)
Amortisation of non-current intangible assets	57	66	(9)
Depreciation of property, plant and equipment	113	126	(13)
Total	170	192	(22)

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 8 – Other costs

Other costs amount to 268 thousand euros for the first quarter of 2007 and include 139 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 9 – Finance income and costs

Net finance income of 136 thousand euros for the first quarter of 2007 breaks down as follows:

(€000)	Q1 2007	Q1 2006	Increase/ (Decrease)
Interest income from investments	207	199	8
Interest income on bank deposits	39	11	28
Foreign exchange gains	13	9	4
Other interest income	5	3	2
Total finance income	264	222	42
Interest expense and bank charges	(25)	(44)	19
Foreign exchange losses	(91)	(228)	137
Other interest expense	(12)	(10)	(2)
Total finance costs	(128)	(282)	154
Net finance income/(costs)	136	(60)	196

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

The balance of foreign exchange gains and losses reflects the negative impact of closing exchange rates on the value of intercompany loans originally disbursed in dollars.

Note 10 - Taxation

Taxation for the period, amounting to 685 thousand euros, reflects estimated income taxes and deferred tax assets and liabilities recognised by Group companies.

Note 11 – Earnings per share

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

(€000)	Q1 2007	Q1 2006
Net profit/(loss) (€000)	(2,226)	(2,657)
Number of shares (000)		
Shares in circulation at the start of the period	3,916 *	3,916 *
Weighted average of treasury shares acquired/sold in the period	-	-
Weighted average of ordinary shares in circulation	3,916	3,916
Basic and diluted earnings per share **	(0.57)	(0.68)

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

** : basic earnings per share for the first quarters of 2007 and 2006 coincides with diluted earnings per share as the conditions provided for by IAS 33 do not exist.

NET FUNDS

The substantial stability of net funds at 31 March 2007 with regard to the end of the previous year shows how the Group has been able to finance its expansion, through significant investments in promotional activities, during the period from operating cash flow.

SUBSEQUENT EVENTS

There were no material events in the period between 1 April 2007 and the date of preparation of this report.

DIRECTORS' FINANCIAL AND OPERATING REVIEW

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(€000)	Q1 2007	Q1 2006	Increase/ (Decrease)	% inc./ (dec.)
Revenues	14,366	7,566	6,800	89.88%
Other income	-	5	(5)	(100.00%)
Total revenue	14,366	7,571	6,795	89.75%
Gross operating profit/(loss)	(1,507)	(1,996)	489	24.50%
	-10.49%	-26.36%		
Operating profit/(loss)	(1,677)	(2,189)	512	23.39%
	-11.67%	-28.91%		
Net finance income/(costs)	136	(60)	196	326.67%
PROFIT/(LOSS) BEFORE TAX	(1,541)	(2,249)	708	31.48%
	-10.73%	-29.71%		
NET PROFIT/(LOSS) BEFORE MINORITY INTERESTS	(2,226)	(2,657)	431	16.22%
	-15.49%	-35.09%		
NET PROFIT/(LOSS) ATTRIBUTABLE TO PARENT COMPANY	(2,226)	(2,657)	431	16.22%
	-15.49%	-35.09%		
Earnings per share	(0.57)	(0.68)	0.12	16.22%
Diluted earnings per share	(0.57)	(0.68)	0.12	16.22%

Compared with the results for the same period of the previous year, the Acotel Group's results for the first quarter of 2007 show a significant increase in revenue (up 90%) and improvements in profit margins.

The growth in revenue primarily reflects the development of *Flycell Inc.*'s business during the period with respect to the first quarter of 2006, when the US subsidiary began to heavily promote its services after preparing for its market launch in 2005. The subsidiaries, *Jinny Software*, *Acotel SpA* and *Acotel do Brasil*, also saw improvements in turnover for the quarter compared with the same period of the previous year.

The gross operating loss (negative EBITDA) for the first quarter of 1,507 thousand euros marks an improvement of 25% on the loss of 1,996 thousand euros recorded in the same period of 2006. The improvement was due to better performances from certain subsidiaries, above all *Acotel do Brasil*,

Acotel SpA and *Flycell Inc.*, and to the process of rationalisation that took place within the Group during 2006, which involved a halt to certain overseas activities whose ability to generate earnings was viewed as too remote.

After amortisation and depreciation of 170 thousand euros, the Group's operating loss (negative EBIT) totals 1,677 thousand euros, compared with a loss of 2,189 thousand euros for the same period of 2006.

After net finance income of 136 thousand euros and taxation for the period, estimated at around 685 thousand euros, the net loss for the period is 2,226 thousand euros, representing an improvement on the loss recorded in the same period of 2006, amounting to 2,657 thousand euros.

OUTLOOK

For greater details on the Group's outlook reference should be made to the Directors' Report on Operations for the year ended 31 December 2006. However, it should be remembered how the particular nature of the B2C business, conducted primarily by the subsidiary, *Flycell Inc.*, in the US market, conditions the Group's interim results. The performance of this area of business alternates between periods when the focus is on driving expansion of the customer base, involving large-scale spending on promotions, and periods when the emphasis is on maximising returns from this investments, resulting in an improvement in margins.