# QUARTERLY REPORT FOR THE THREE MONTHS ENDED 31 MARCH 2009

Registered offices in Via della Valle dei Fontanili 29/37 – 00168 Rome, Italy
Share capital: €1,084,200.00 fully paid-in
Rome Companies' Register
Tax Code and VAT number: 06075181005

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# CORPORATE OFFICERS

## BOARD OF DIRECTORS

Claudio Carnevale
*Chairman and CEO*

Francesco Ago (1), (2), (3)
*Director*

Margherita Argenziano
*Director*

Luca De Rita
*Director*

Giovanni Galoppi (1), (2)
*Director*

Giuseppe Guizzi (1), (2)
*Director*

Luciano Hassan
*Director*

Cristian Carnevale
*Director*

Raffaele Cappiello (1), (2)
*Director*

(1) Member of the Remuneration Committee
(2) Member of the Internal Audit Committee
(3) Lead Independent Director

## BOARD OF STATUTORY AUDITORS

Antonio Mastrangelo
*Chairman*

Umberto Previti Flesca
*Auditor*

Maurizio Salimei
*Auditor*

## INDEPENDENT AUDITORS

Deloitte & Touche S.p.A.

The Board of Directors and Board of Statutory Auditors of Acotel Group S.p.A. were elected by the Annual General Meeting of 24 April 2009, which also elected Claudio Carnevale as Chairman.

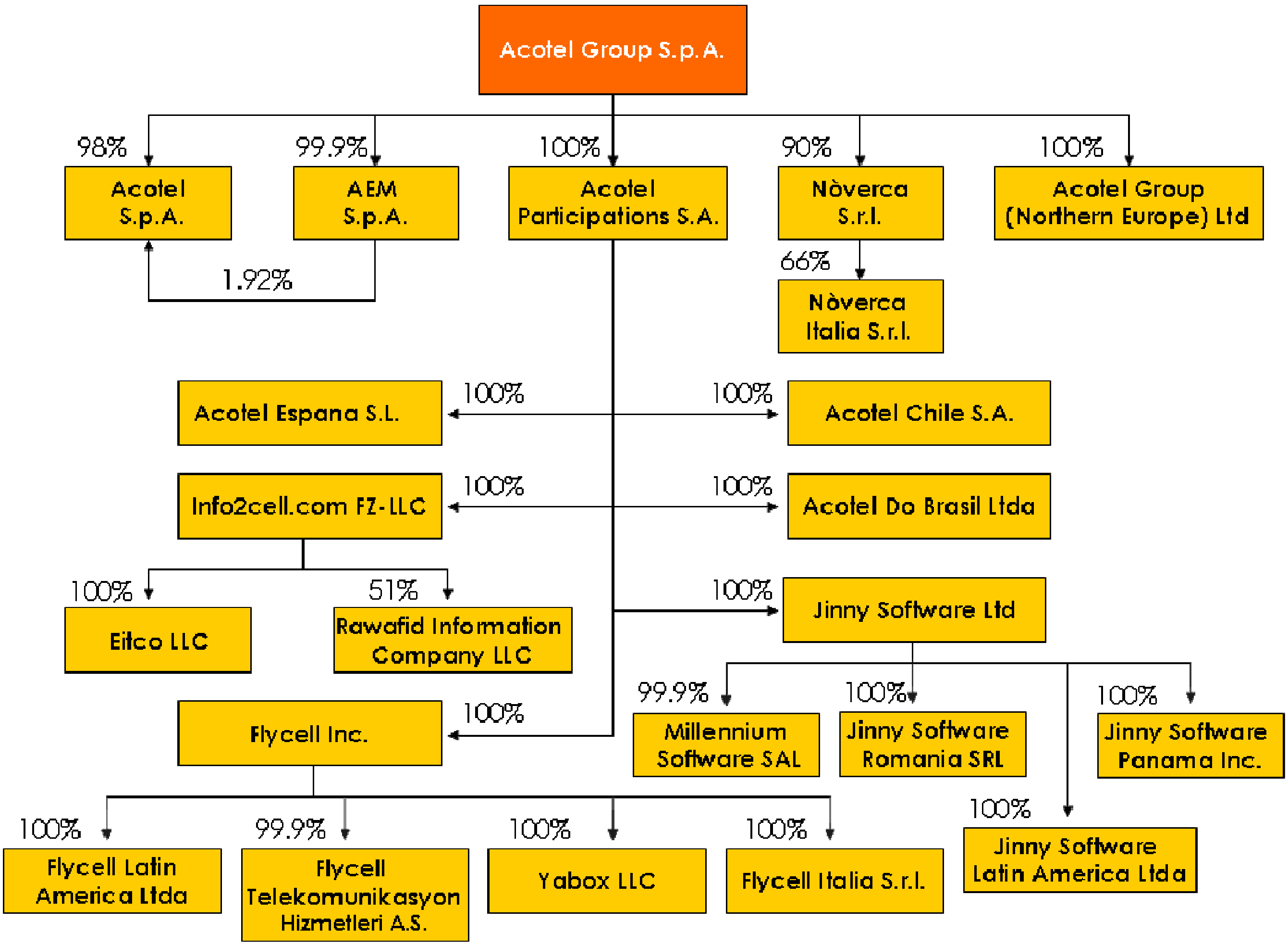
The Board of Directors' meeting of 7 May 2009 elected Claudio Carnevale as the Company's Chief Executive Officer, assigning him all the powers necessary for effective and timely management of the Company.

The Board meeting of 7 May 2009 also elected Francesco Ago, Raffaele Cappiello, Giovanni Galoppi and Prof. Giuseppe Guizzi as members of the Remuneration Committee and the Internal Audit Committee. Francesco Ago is Chairman of both committees.

The Board of Directors also elected Francesco Ago as the Company's Lead Independent Director.

## THE GROUP

The following chart shows the structure of the Acotel Group at 31 March 2009:



The parent company of Acotel Group S.p.A. is Clama S.r.l., which at 31 March 2009 holds 1,727,915 ordinary shares, representing 41.4% of the share capital. Clama S.r.l. does not carry out management and coordination activities pursuant to art. 2497 of the Italian Civil Code.

## *BASIS OF PRESENTATION*

The Acotel Group's quarterly report for the three months ended 31 March 2009 have been prepared in compliance with art. 154-ter (*Financial reporting*) of Legislative Decree 58/1998 (the Consolidated Finance Act) and subsequent amendments and additions, and the CONSOB's Regulations for Issuers.
The quarterly report has been prepared under the international financial reporting standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union.

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 2008, 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 2009 have been prepared on the basis of the underlying accounting records at that date, as adjusted in accordance with the matching principle.

Preparation of this report 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 *Flycell Inc.* and its subsidiaries, in addition to certain related cost items, include preliminary figures and estimates that have yet to be confirmed.

Estimates and assumptions are primarily used in order to account for any refunds that may be payable to B2C customers, and for the portion of revenues deriving from subscriptions for B2C services billed in March 2009 and carried forward to the following accounting period.

Certain evaluation processes, above all those of a complex nature 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.

In addition, this quarterly report is unaudited.

## *CONSOLIDATION PRINCIPLES*

The consolidated quarterly financial statements include the financial statements of *Acotel Group SpA* and those of its subsidiaries and joint ventures.

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

Where necessary, adjustments are made to the financial statements of subsidiaries and joint ventures in order to bring their accounting policies into line with those adopted by the Group.

The financial statements of Group companies are prepared in the functional currency of each company. For the purposes of the consolidated financial statements, the financial statements of each company are translated into the Group's functional and presentation currency: the euro.
The assets and liabilities of overseas subsidiaries are translated into euros at closing exchange rates. Revenues and costs are translated at average rates for the period. Any translation differences are recognised in shareholders' equity in the "currency translation reserve". This reserve is recognised in the income statement as a gain or a loss in the period in which the related subsidiary is sold.

Line-by-line consolidation

Subsidiaries are defined as entities over which the Group has the power to govern the financial and operating policies.

The assets and liabilities and the revenues and expenses of consolidated companies are recorded on a line-by-line basis. The carrying amount of investments is eliminated against the corresponding share of the investee companies' shareholders' equity and the individual assets and liabilities are recognised at fair value at the date control was obtained. Any positive difference is recognised in non-current assets as "Goodwill", while negative differences are recognised in the income statement.

Intercompany receivables and payables, including dividends distributed within the Group, are eliminated. Profits, losses, revenues and expenses arising from intercompany transactions, and that have yet to be realised on transactions with third parties, are eliminated.

Minority interests in shareholders' equity and in net profit for the period is shown in the specific items in the consolidated balance sheet and income statement.

Proportionate consolidation

A joint venture is a contractual arrangement in which a party undertakes an economic activity with other participants, thereby subjecting it to joint control.
Joint venture agreements that entail the establishment of a separate entity in which each participant has a share in the investment are called jointly controlled entities.
Joint ventures are defined as entities in which, on a contractual basis, several participants share control of an economic activity, and therefore decisions regarding financial and operating policies require the unanimous consent of the parties sharing control.

The Acotel Group reports jointly controlled entities using the proportionate method of consolidation, by which the Group's share of the assets and liabilities and the revenues and expenses of jointly controlled entities are recorded on a line-by-line basis in the consolidated financial statements.

In transactions carried out between a Group company and a jointly controlled entity, unrealised gains and losses are eliminated in proportion to the Group's interest in the jointly controlled entity, except for when unrealised losses are evidence of a reduction in value of the asset transferred.

## BASIS OF CONSOLIDATION

The following table provides summary information on consolidated companies held, directly or indirectly, by *Acotel Group SpA*, the Parent Company. There were no changes in the basis of consolidation during the first quarter of 2009, compared with 31 December 2008.

Companies consolidated on a line-by-line basis

| Company | Date of acquisition | Group's interest (%) | Registered office | Share capital | |
|---|---|---|---|---|---|
| Acotel S.p.A. | 28 April 2000 | 99.9% (3) | 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% (4) | Santiago, Chile | USD | 17,330 |
| Acotel Espana S.L. | 28 April 2000 | 100% (4) | Madrid | EURO | 3,006 |
| Acotel Do Brasil LTDA | 8 August 2000 (1) | 100% (4) | Rio de Janeiro | BRL | 1,868,250 |
| Jinny Software Ltd. | 9 April 2001 | 100% (4) | Dublin | EURO | 3,201 |
| Millennium Software SAL | 9 April 2001 | 99.9% (5) | Beirut | LPD | 30,000,000 |
| Info2cell.com FZ-LLC | 29 January 2003 (2) | 100% (4) | Dubai | DH | 18,350,000 |
| Emirates for Information Technology Co. | 29 January 2003 | 100% (6) | Amman | JD | 710,000 |
| Flycell Inc. | 28 June 2003 (1) | 100% (4) | Wilmington | USD | 10,000 |
| 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% (7) | Istanbul | TRY | 50,000 |
| Flycell Latin America Conteúdo Para Telefonia Móvel LTDA | 6 June 2006 (1) | 100% (7) | Rio de Janeiro | BRL | 250,000 |
| Jinny Software Romania SRL | 26 June 2007 (1) | 100% (5) | Bucharest | RON | 200 |
| Yabox LLC | 24 October 2007 (1) | 100% (7) | Wilmington | USD | 1 |
| Jinny Software Latin America Importação e Exportação LTDA | 11 February 2008 (1) | 100% (5) | Sao Paolo | BRL | 250,000 |
| Rawafid Information Company LLC | 24 February 2008 (1) | 51% (6) | Riyadh | SAR | 500,000 |
| Jinny Software Panama Inc. | 1 July 2008 (1) | 100% (5) | Panama City | USD | 10,000 |
| Flycell Italia S.r.l. | 10 July 2008 (1) | 100% (7) | Rome | EURO | 10,000 |

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

Jointly controlled entities (joint ventures) consolidated using the proportionate method

| Company | Date of acquisition | Group's interest (%) | Registered office | Share capital | |
|---|---|---|---|---|---|
| Nòverca S.r.l. | 10 July 2002 (1) | 90% | Rome | EURO | 2,949,289 |
| Nòverca Italia S.r.l. | 9 May 2008 (2) | 59.4% (3) | Rome | EURO | 120,000 |

(1) Prior to such date the Group held 50% of the company's share capital, posted to investments in associates. As of 9 May 2008, following the acquisition of an interest by Intesa SanPaolo S.p.A., the Group holds a 90% interest in the company.
(2) The date of the company's entry into the Group coincides with its incorporation.
(3) Held via Nòverca S.r.l.

## SIGNIFICANT EVENTS DURING THE PERIOD

The most important event to take place in the first quarter of 2009 was the commercial launch of the Mobile Virtual Network Operator, *Nòverca*, which was established by the Acotel Group in partnership with the major banking group, Intesa Sanpaolo. The bank, in addition to holding equity interests in *Nòverca Italia S.r.l.*, *Nòverca S.r.l.* and *Acotel Group S.p.A.*, will also act as one of the principal distribution channels for SIM cards.

In accordance with a precise strategy adopted by *Nòverca Italia S.r.l.*, the commercial launch is taking place gradually, in terms of both the distribution of SIM cards and customer acquisitions. This approach aims to enable the company to monitor and fine tune all the various business processes, including technology-related issues and customer care. The creation of *Nòverca* is based on a proprietary technology platform, which has been developed entirely in-house by the Group and had never before been tried out in a real operating environment. In accordance with this strategy, the distribution of SIM cards was launched at only a few hundred of the over 6,000 branches operated by the banking group.

The commercial launch of *Nòverca* marks the Acotel Group's into the mobile telecommunications business, meaning that, from the second quarter of 2009, the Group will operate in four areas of business and no longer three, as before.

In the Services business segment, *Flycell Inc.* has started distribution of its consumer services in Mexico, a country that represents the sixth geographical market to be entered by the company. Thanks to this further expansion of its overseas footprint, the company has confirmed its intention of pursuing a geographical expansion strategy aimed at both creating synergies between the various markets and exploiting economies of scale at the level of its technology platform and headquarters organisation.

The Services segment also witnessed *Info2cell*'s launch of an SMS service distributing information on the UEFA Champions League, a European sporting event with a large following throughout the Persian Gulf and above all in Saudi Arabia.

In February the Mobile Messaging Solutions business, headed by *Jinny Software Ltd.*, successfully met the strict technical requirements imposed by *Zain Tanzania* regarding the supply of a Service Delivery Platform consisting of various integrated products such as an SMSC, a Message Router, VoiceSMS, Voicemail, a Ringback Tone Server and a Charging Gateway. The importance of this technical certification lies in the fact that it has further enhanced Jinny Software's reputation, given that *Zain Tanzania* is one of the most important operators in Africa and a member of the *Zain group*, which is present in 22 countries with over 56 million subscribers.

## *RESULTS OF OPERATIONS*

### RECLASSIFIED CONSOLIDATED INCOME STATEMENT

| *(€000)* | Note | Q1 2009 | Q1 2008 | Inc./(Dec.) | % inc./dec.) |
|---|---|---|---|---|---|
| Revenues | 1 | 22,484 | 17,990 | 4,494 | 25% |
| Other income | | 64 | 11 | 53 | 482% |
| **Total** | | **22,548** | **18,001** | **4,547** | **25%** |
| Movements in work in progress, semi-finished and finished goods | | 5 | (2) | 7 | 350% |
| Raw materials | 2 | (234) | (204) | (30) | (15%) |
| External services | 3 | (17,995) | (14,539) | (3,456) | (24%) |
| Rentals and leases | 4 | (437) | (380) | (57) | (15%) |
| Staff costs | 5 | (5,031) | (4,098) | (933) | (23%) |
| Internal capitalised costs | 6 | 402 | 186 | 216 | 116% |
| Other costs | 7 | (294) | (370) | 76 | 21% |
| **Gross operating profit/(loss)** | | **(1,036)** | **(1,406)** | **370** | **26%** |
| Amortisation and depreciation | 8 | (365) | (343) | (22) | (6%) |
| Impairment charges/reversal of impairment charges on non-current assets | | (1) | (1) | - | - |
| **Operating profit/(loss)** | | **(1,402)** | **(1,750)** | **348** | **20%** |
| Net finance income/(costs) | 9 | 392 | (24) | 416 | 1,733% |
| **PROFIT/(LOSS) BEFORE TAX** | | **(1,010)** | **(1,774)** | **764** | **43%** |
| Taxation | 10 | (330) | (932) | 602 | 65% |
| **NET PROFIT/(LOSS) BEFORE MINORITY INTERESTS** | | **(1,340)** | **(2,706)** | **1,366** | **50%** |
| Net profit/(loss) attributable to minority interests | | 86 | 60 | 26 | 43% |
| **NET PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO PARENT COMPANY** | | **(1,426)** | **(2,766)** | **1,340** | **48%** |
| Earnings per share | 11 | (0.35) | (0.71) | | |
| Diluted earnings per share | 11 | (0.35) | (0.71) | | |

Compared with the results for the same period of the previous year, the Acotel Group's results for the first quarter of 2009 show improvements in both revenue and earnings.

Revenue of 22,484 thousand euros for the quarter is up 25% on the first quarter of 2008, reflecting the positive commercial performances achieved primarily by *Flycell Inc.* and its direct subsidiaries, and by *Info2cell* and *Jinny Software.*

The Group reports a gross operating loss of 1,036 thousand euros for the quarter, marking an improvement of 26% on the figure for the same period of 2008. This margin reflects the slowdown witnessed by the subsidiaries, *Acotel S.p.A.* and *Acotel do Brasil*, essentially as a result of the economic downturn that has hit the countries in which the two companies operate. The improvement compared with the previous year is almost entirely due to the stronger performance registered by *Flycell Inc*. and its direct subsidiaries.

After amortisation and depreciation, amounting to 365 thousand euros, and the impairment of non-current assets, totalling 1 thousand euros, the operating loss is 1,402 thousand euros, representing a 20% improvement on the same period of last year.

After net finance income of 392 thousand euros, estimated taxation for the period of 330 thousand euros, and profit attributable to minority interests of 86 thousand euros, the net loss attributable to the Parent Company for the first quarter of 2009 amounts to 1,426 thousand euros, marking an improvement of 48% on the same period of 2008.

## Note 1 - Revenue

Revenue in the first quarter of 2009 amounts to 22,484 thousand euros, representing an increase on the 17,990 thousand euros of the same period of the previous year.

As shown in the table below, in addition to the Services segment (up 23.5%), Mobile messaging solutions (up 67%) and the Design of security systems (up 8%) also registered growth.

| *(€000)* | **Q1 2009** | **%** | **Q1 2008** | **%** |
|---|---|---|---|---|
| SERVICES | 20,721 | 92.1% | 16,775 | 93.3% |
| MOBILE MESSAGING SOLUTIONS | 1,272 | 5.7% | 760 | 4.2% |
| SECURITY SYSTEMS DESIGN | 491 | 2.2% | 455 | 2.5% |
| | **22,484** | **100%** | **17,990** | **100%** |

## SERVICES

The Services business 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 2009** | **Q1 2008** | **Inc./(Dec.)** |
|---|---|---|---|
| B2C services | 16,048 | 10,466 | 5,582 |
| Network Operator services | 3,152 | 5,245 | (2,093) |
| Corporate services | 1,444 | 785 | 659 |
| Media services | 77 | 279 | (202) |
| **Total** | **20,721** | **16,775** | **3,946** |

At 16,048 thousand euros B2C service revenues for the first quarter of 2009 are up 53% on the same period of the previous year, representing approximately 77.5% of total service revenues. These revenues are generated almost exclusively by the US subsidiary, *Flycell Inc.* and its direct subsidiaries, *Flycell Latin America*, *Flycell Telekomünicasyon Hizmetleri A.Ş* and *Flycell Italia S.r.l.*. The geographical expansion embarked on by *Flycell* in the last few years continues. During the first quarter of 2009 *Flycell* launched its commercial offering in Mexico, generating turnover of 2,367 thousand euros in the period under review. The new source of revenue adds to existing markets in North America (7,237 thousand euros), Brazil (2,532 thousand euros), Spain (1,770 thousand euros), Italy (1,227 thousand euros) and Turkey (893 thousand euros).

Revenues from the provision of Network Operator services, amounting to 3,152 thousand euros, are down 40% on the first quarter of 2008. They include revenues from services rendered by the subsidiary, *Acotel S.p.A.* to *Telecom Italia*, totalling 1,904 thousand euros, revenues from services rendered by the Brazilian subsidiary, *Acotel do Brasil*, to the Brazilian operators, *TIM Celular* and *TIM Nordeste Telecomunicaçoes*, amounting to 665 thousand euros, and revenues generated by activities carried out by *Info2cell* for the main mobile telephony operators in the Middle East, totalling 571 thousand euros. The reduction compared with the same period of the previous year is principally due to lower turnover reported by the Italian and Brazilian subsidiaries.

Revenues from Corporate services amount to 1,444 thousand euros, and relate primarily to services provided in the Middle East by *Info2cell*, which generated revenues of 1,111 thousand euros, and in Italy by *Acotel S.p.A.*, primarily to banks, totalling 332 thousand euros. The 84% increase compared with the first quarter of 2008 reflects increased turnover at the Middle Eastern subsidiary.

Revenues from services provided to media companies, amounting to 77 thousand euros, are almost entirely generated in the Middle East by the subsidiary, *Info2cell*, and in Italy by *Acotel S.p.A.*

MOBILE MESSAGING SOLUTIONS

Revenues from this line of business, amounting to 1,272 thousand euros in the first quarter of 2009, are ahead of the figure for the same period of 2008 (760 thousand euros). These revenues are generated by *Jinny Software* from the supply of new equipment and the provision of maintenance to mobile operators in Africa, the Middle East, Latin America, Asia, Europe and North America.

SECURITY SYSTEMS DESIGN

Revenues from the design and production of electronic security systems amount to 491 thousand euros for the firts quarter and are entirely generated by the subsidiary, *AEM S.p.A.*. These revenues, which are up 8% on the figure for the first quarter of 2008, essentially regard the installation, supply, servicing and maintenance of remote surveillance equipment installed at Italian police headquarters, at certain provincial branches of the Bank of Italy and at certain companies in the *ACEA* Group.

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

| *(€000)* | Q1 2009 | % | Q1 2008 | % |
|---|---|---|---|---|
| NORTH AMERICA | 7,291 | 32.4% | 7,279 | 40.5% |
| LATIN AMERICA | 5,784 | 25.7% | 3,990 | 22.2% |
| ITALY | 4,016 | 17.8% | 4,091 | 22.6% |
| COUNTRIES | 2,722 | 12.1% | 768 | 4.3% |
| MIDDLE EAST | 2,026 | 9.0% | 1,398 | 7.8% |
| AFRICA | 518 | 2.3% | 358 | 2.0% |
| ASIA | 127 | 0.7% | 106 | 0.6% |
| **TOTAL** | **22,484** | **100%** | **17,990** | **100%** |

The geographical revenue breakdown for the first quarter of 2009 reveals:

- stable turnover in North America, generated almost entirely by the subsidiary, *Flycell Inc.*;
- revenue growth in Latin America and Europe, thanks above all to B2C services provided by *Flycell Inc.* and its direct operating subsidiaries, *Flycell Latin America* and *Flycell Telekomünicasyon Hizmetleri A.Ş,*;
- revenue growth generated in the Middle East, thanks to the commercial activities of the subsidiary, *Info2cell.*

**Note 2 – Raw materials**

The cost of raw materials during the quarter, amounting to 234 thousand euros, refers principally to the purchase of materials for the construction of telecommunications and security systems by *Jinny Software* (150 thousand euros).

## Note 3 – External services

The cost of external services totals 17,995 thousand euros for the quarter, representing an increase of 24% on the first quarter of 2008. A breakdown of the service costs is shown below:

| *(€000)* | Q1 2009 | Q1 2008 | Inc./(Dec.) |
|---|---|---|---|
| Interconnection and billing services | 7,574 | 4,581 | 2,993 |
| Advertising | 5,707 | 6,076 | (369) |
| Content providers | 1,873 | 1,566 | 307 |
| Professional consultants | 722 | 422 | 300 |
| Travel expenses | 496 | 383 | 113 |
| Purchase of SMS packages | 379 | 344 | 35 |
| Connectivity and sundry utilities | 369 | 315 | 54 |
| Remuneration of governance bodies | 173 | 162 | 11 |
| Outsourcing | 131 | 86 | 45 |
| Other minor expenses | 571 | 604 | (33) |
| **Total** | **17,995** | **14,539** | **3,456** |

The most significant components of this item reflect the operating methods adopted by *Flycell Inc.* and its direct subsidiaries, *Flycell Latin America*, *Flycell Telekomünicasyon Hizmetleri A.Ş* and *Flycell Italia S.r.l.*, to develop business in their principal markets. This entails significant costs (7,574 thousand euros) charged by telephone operators and mobile transaction network providers for interconnection and billing services and substantial promotional costs (5,410 thousand euros out of a Group total of 5,707 thousand euros) in order to raise market awareness of the companies' services and increase their customer base.

The other most significant costs regard the cost of acquiring content from external content providers, amounting to 1,873 thousand euros, the fees paid to marketing, administrative, legal, tax and technical consultants by Group companies (722 thousand euros), travel expenses (496 thousand euros), the cost of purchasing SMS packages from mobile operators (379 thousand euros), and the cost of connecting to terrestrial and satellite transmission networks, together with other utilities (369 thousand euros).
Other cost items, in order of importance, regard the fees paid to governance bodies, totalling 173 thousand euros, and the cost of outsourcing, amounting to 131 thousand euros.

## Note 4 – Rentals and leases

Rentals and leases amount to 437 thousand euros and mainly include rentals on offices occupied by Group companies.

## Note 5 – Staff costs

Staff costs include:

| *(€000)* | Q1 2009 | Q1 2008 | Inc./(Dec.) |
|---|---|---|---|
| Salaries and wages | 3,937 | 3,217 | 720 |
| Social security contributions | 636 | 556 | 80 |
| Staff termination benefits | 66 | 54 | 12 |
| Finance costs | (15) | (12) | (3) |
| Other costs | 407 | 283 | 124 |
| **Total** | **5,031** | **4,098** | **933** |

The increase in staff costs is due principally to the additional staff recruited by *Nòverca S.r.l.*, *Nòverca Italia S.r.l.* and overseas Group companies due to expansion of their activities.

Other staff costs include charges incurred in relation to professional training and refresher courses, prevention and health care expenses, and contributions for defined-contribution pension plans for the staff of foreign subsidiaries.

The number of staff by category at 31 March 2009 and a comparison of the average numbers for the first quarters of 2009 and 2008 are reported in the following table:

| | At 31 March 2009 | Average Q1 2009 | Average Q1 2008 |
|---|---|---|---|
| Managers | 29 | 29 | 19 |
| Supervisors | 59 | 59 | 28 |
| White- and blue-collar staff | 345 | 344 | 315 |
| **Total** | **433** | **432** | **362** |

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

| | At 31 March 2009 | At 31 March 2008 |
|---|---|---|
| Italy | 106 | 99 |
| Lebanon | 80 | 69 |
| Jordan | 66 | 60 |
| USA | 63 | 61 |
| Ireland | 34 | 28 |
| Brazil | 34 | 21 |
| United Arab Emirates | 18 | 21 |
| Romania | 12 | 3 |
| Malaysia | 7 | 4 |
| Turkey | 4 | 3 |
| Spain | 3 | - |
| Kenya | 3 | - |
| South Africa | 2 | - |
| Panama | 1 | - |
| **Total** | **433** | **369** |

## Note 6 - Internal capitalised costs

Internal capitalised costs, totalling 402 thousand euros, include 294 thousand euros relating to staff employed in the development of software and new applications that will interact with the *"Nòverca"* platform. The platform has been used by the Acotel Group to supply integrated IP communications solutions (data, audio, video) under this brand name since mid-2007 and, from the end of the first quarter of 2009, has been used to supply added value services as a Mobile Virtual Network Operator.
The remaining amount regards the cost of staff employed by *Acotel Group S.p.A.* on development of the new *Acotel* platform in 2009.

## Note 7 – Other costs

Other costs amount to 294 thousand euros in the first quarter of 2009, including 180 thousand euros for indirect taxes due from *Acotel do Brasil* and *Flycell Latin America* 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 - Amortisation and depreciation

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

| *(€000)* | Q1 2009 | Q1 2008 | Inc./(Dec.) |
|---|---|---|---|
| Amortisation of non-current intangible assets | 77 | 62 | 15 |
| Depreciation of property, plant and equipment | 288 | 281 | 7 |
| **Total** | **365** | **343** | **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 9 - Finance income and costs

Net finance income of 392 thousand euros for the first quarter of 2009 breaks down as follows:

| *(€000)* | Q1 2009 | Q1 2008 | Inc./(Dec.) |
|---|---|---|---|
| Interest income from investments | 217 | 201 | 16 |
| Interest income on bank deposits | 56 | 21 | 35 |
| Foreign exchange gains | 225 | 43 | 182 |
| Other interest income | 1 | 34 | (33) |
| **Total finance income** | **499** | **299** | **200** |
| Interest expense and bank charges | (60) | (47) | (13) |
| Foreign exchange losses | (23) | (264) | 241 |
| Other interest expense | (24) | (12) | (12) |
| **Total finance costs** | **(107)** | **(323)** | **216** |
| **Net finance income/(costs)** | **392** | **(24)** | **416** |

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 impact of closing exchange rates on the value of intercompany loans originally disbursed in dollars.

## Note 10 - Taxation

Taxation for the period, amounting to 330 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 2009 | | Q1 2008 | |
|---|---|---|---|---|
| **Net profit/(loss) (€000)** | **(1,426)** | | **(2,766)** | |
| **Number of shares (000)** | | | | |
| Shares in circulation at the start of the period* | 4,114 | * | 3,916 | * |
| Weighted average of treasury shares acquired/sold in the period | - | | - | |
| Weighted average of ordinary shares in circulation | **4,114** | | **3,916** | |
| **Basic and diluted earnings per share **** | **(0.35)** | | **(0.71)** | |

* : net of treasury shares held at the same date.
**: basic earnings for the first quarters of 2009 and 2008 coincide with diluted earnings per share as the conditions provided for by IAS 33 do not exist.

## FINANCIAL POSITION AND CASH FLOW

### RECLASSIFIED CONSOLIDATED BALANCE SHEET

| (€000) | 31 Mar 2009 | 31 Dec 2008 | Inc./(Dec.) | % inc./(dec.) |
|---|---|---|---|---|
| **Non-current assets:** | | | | |
| Property, plant and equipment | 4,516 | 4,084 | 432 | 11% |
| Intangible assets | 13,762 | 12,379 | 1,383 | 11% |
| Other assets | 606 | 481 | 125 | 26% |
| **TOTAL NON-CURRENT ASSETS** | **18,884** | **16,944** | **1,940** | **11%** |
| **Net current assets:** | | | | |
| Inventories | 393 | 396 | (3) | (1%) |
| Trade receivables | 22,313 | 22,220 | 93 | - |
| Other current assets | 3,163 | 2,340 | 823 | 35% |
| Trade payables | (14,623) | (9,404) | (5,219) | (55%) |
| Other current liabilites | (4,231) | (4,319) | 88 | 2% |
| **TOTAL NET CURRENT ASSETS** | **7,015** | **11,233** | **(4,218)** | **(38%)** |
| **STAFF TERMINATION AND AND OTHER EMPLOYEE BENEFITS** | **(1,198)** | **(1,146)** | **(52)** | **(5%)** |
| **NON-CURRENT PROVISIONS** | **(333)** | **(294)** | **(39)** | **(13%)** |
| **NET INVESTED CAPITAL** | **24,368** | **26,737** | **(2,369)** | **(9%)** |
| **Shareholders' equity:** | | | | |
| Share capital | 1,084 | 1,084 | - | - |
| Reserves and retained earnings/(accumulated losses) | 64,305 | 57,522 | 6,783 | 12% |
| Net profit/(loss) for the period | (1,426) | 6,564 | (7,990) | (122%) |
| Minority interests | 116 | 30 | 86 | 287% |
| **TOTAL SHAREHOLDERS' EQUITY** | **64,079** | **65,200** | **(1,121)** | **(2%)** |
| **MEDIUM-/LONG TERM DEBT** | **101** | **101** | **-** | **-** |
| **Net cash and cash equivalents:** | | | | |
| Current financial assets | (21,029) | (18,764) | (2,265) | (12%) |
| Cash and cash equivalents | (22,568) | (23,439) | 871 | 4% |
| Current financial liabilities | 3,785 | 3,639 | 146 | 4% |
| | **(39,812)** | **(38,564)** | **(1,248)** | **(3%)** |
| **NET FUNDS** | **(39,711)** | **(38,463)** | **(1,248)** | **(3%)** |
| **TOTAL SHAREHOLDERS' EQUITY AND NET FUNDS** | **24,368** | **26,737** | **(2,369)** | **(9%)** |

The Acotel Group's net invested capital at 31 March 2009 amounts to 24,368 thousand euros, made up of non-current assets of 18,884 thousand euros, net current assets of 7,015 thousand euros, staff termination benefits of 1,198 thousand euros and other non-current provisions of 333 thousand euros.

Net invested capital is financed by shareholders' equity of 64,079 thousand euros and net funds of 39,711 thousand euros.

A detailed analysis of changes in the principal balance sheet items shows that:

- non-current assets have increased compared to the end of the previous year, primarily reflecting investments linked to the launch of the Group's Mobile Virtual Network Operator business at the end of March;
- movements in net working capital relate to the success of efforts aimed at achieving a better match between amounts collected from customers and payments to suppliers;
- net funds at 31 March 2009, the composition of which is provided in the following table, amount to 39,711 thousand euros, marking an increase of 1,248 thousand euros on 31 December 2008.

**NET FUNDS**

*(€000)*

| | 31 Mar 2009 | 31 Dec 2008 |
|---|---|---|
| A. Cash and cash equivalents | 22,568 | 23,439 |
| B. Assets held for trading | 16,424 | 16,147 |
| **C. Liquidity (A + B)** | **38,992** | **39,586** |
| | | |
| **D. Other current financial assets** | **4,605** | **2,617** |
| | | |
| E. Current bank borrowings | (3,753) | (3,607) |
| F. Current portion of non-current debt | (32) | (32) |
| **G. Current financial liabilities (E + F)** | **(3,785)** | **(3,639)** |
| | | |
| **H. Net current funds (C+D+G)** | **39,812** | **38,564** |
| | | |
| I. Non-current financial liabilities | (101) | (101) |
| **L. Non-current debt (I)** | **(101)** | **(101)** |
| | | |
| **M. Net funds (H + L)** | **39,711** | **38,463** |

## OTHER INFORMATION

The tax audit of Acotel Group S.p.A. referred to in the Annual Report for 2008 came to an end on 13 May 2009. As a result, the tax authorities have notified the Company of irregularities in the tax treatment of certain balance sheet items and the failure to apply regulations governing income produced by a number of foreign subsidiaries.

Acotel Group S.p.A. believes that the findings are without grounds and, in addition to making representations to the tax authorities with notes explaining its approach to taxation, is considering the best way to proceed in order to have the validity of its position recognised.

## *DECLARATION BY THE MANAGER RESPONSIBLE FOR THE GROUP'S FINANCIAL REPORTING PURSUANT TO THE PROVISIONS OF ARTICLE 154 BIS, PARAGRAPH 2, OF LEGISLATIVE DECREE 58/1998*

The manager responsible for the Group's financial reporting, Luca De Rita, hereby declares, pursuant to article 154 *bis*, paragraph 2 of the Consolidated Finance Act, that this consolidated quarterly report is consistent with the underlying accounting records.