Teleunit SpA
Press Information

21 September 2006

Teleunit SpA
INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Teleunit S.p.A., ("Teleunit" or "the Group"; stock code: TLU), the Italian telecom services provider, has announced its financial results for the six months ended 30 June 2006.

Summary:

- Revenue unchanged at €40.1 million (H1 2005: €40.1 million)
- Gross profit down 6% to €7.3 million (H1 2005: €7.8 million)
- Net loss of €3.6 million (H1 2005: net profit €1.8 million)
- Stricter management controls and improved financial reporting implemented
- Reorganisation of voice and data services into one division
- New direct carrier-to-carrier agreements signed in Wholesale division
- Mobile Content Services global subscriber base of over 0.5 million, boosted recently by the World Cup; Turkish business performing ahead of expectations

Commenting on the financial results, Gianfranco Cimica, Chief Executive Officer of Teleunit S.p.A, said:

"The first six months of 2006 have proved to be very challenging for Teleunit. We encountered a series of operational issues which have seriously compromised Teleunit's financial performance in 2006. However, management subsequently has implemented the necessary corrective measures to significantly improve our operational position.

"We recognise that our shareholders have been very patient during the restructuring that has taken place over the last 18 months and thank them for their ongoing support. The Board foresees that, given the resolution of the recent operational challenges, Teleunit is now well positioned to reap the benefits of past rationalisation, and to exploit the excellent growth opportunities presented by the mobile content and VoIP markets going forward."

About Teleunit SpA

Based in Perugia in Central Italy, Teleunit is a telecom services provider to both business and residential customers throughout Italy. The Company has three operating divisions: voice and data services, premium access numbers and mobile content services. The Company is looking to expand its operations selectively in Italy and internationally. Teleunit listed on AIM in May 2004, the first Italian company to complete a primary listing in London. For more information, please visit the website, http://ir.teleunit.it.

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Chief Executive Officer's Review

The Group experienced some significant setbacks in the first half of 2006, which were reported in June's trading update. Despite the operational difficulties encountered during this period, the Board remains confident that the benefits of the restructuring initiatives in 2005 and 2006 will be reflected in the Group's performance in 2007 and beyond.

Three significant issues have compromised these interim results. The first related to network issues that had a negative impact on the Fixed Line and Wholesale divisions' revenues and, in the latter's case, the gross profit. Secondly, a lack of adequate operational reporting procedures resulted in the Board not being alerted immediately to these issues. Finally, an isolated billing error overstated the Premium Access division's revenues for a three month period. Discovery of the error was delayed due to the 120 days credit period granted to customers. These problems were predominantly responsible for and resulted in the Company generating a loss in the period of €3.6 million versus an H1 2005 profit of €1.8 million.

As soon as these issues came to light, senior management acted swiftly to rectify the root causes. Key management positions have been re-assigned, responsibilities have been clearly defined and appropriate performance indicators and rewards have been implemented.

Since his appointment in April 2006, Silvio Arienti, the new CFO, has re-structured the administrative department and assigned specific responsibilities to ensure effective control of infrastructural and other operational costs. Additionally, he has put in place procedures to enable senior management to analyse and monitor business performance on a more timely basis. The technical department also has been streamlined and reorganised by the new CTO, and defined procedures and protocols have been introduced.

The Board believes that, as a result of the measures implemented, Teleunit faces a far brighter future, but wishes to thank shareholders for their forbearance during what has proved to be an extended and painful rationalisation process.

Operational Review:

Voice and Data Services:

As part of the Group's restructuring, it has been decided to consolidate the wholesale, wireless local loop and fixed line businesses into one division, from now on to be referred to as the Voice and Data Services division. This effectively streamlines the business as these represent complementary customer services offerings.

The combined revenues of these three businesses in the first half of 2006 amounted to €5.4 million, a 25% decrease on the comparative figure for the previous year, whilst gross profit fell from €2.7 million to €1.5 million year-on-year. These declines were due primarily to the operational issues in both the Wholesale Services and Fixed Line businesses, detailed below:

- **Wholesale Services:**

  Delayed implementation of the Digitalk platform had a serious impact on this division's profitability in the first half of 2006. Although the Digitalk hardware was implemented at the end of 2005, customers were not fully migrated onto the platform until the 12th of June. This led to higher unit costs than revenues for some client traffic. This, combined with wider network problems and inadequate internal controls, which meant that these issues were not identified early, adversely impacted gross profit by €460,000.

  Since then automated procedures have been established to monitor traffic and unit costs on a daily basis to prevent this problem recurring. Further testing of the networking software and LCR (Least Cost Routing) protocols have been carried out and, at period end, customer retention strategies were introduced that have been yielding strong results. Most of the wholesale customer base has now been migrated to the Digitalk platform and procedures to facilitate liaison between the wholesale division and the technical department have been introduced.

  Management sees this reversal as very much as a one-off, which in no way compromises the potential of the wholesale division going forward. Increasing customer demand for wholesale services tends to support this view.

- **Fixed Line Services:**

  The technical issues that arose in the first half reduced the monthly rate of ADSL VoIP customer acquisition from about 750 new orders in March to 250 in June. However, the strength of our relationships with the sales agencies that resell our ADSL VoIP offerings was vital in minimising their impact. Effectively our agencies only reduced activity in the latter part of the period, demonstrating their loyalty to and belief in our products. Revenues therefore came in at €3.1 million compared to €4.0 million for the corresponding period in 2005. However the gross margin has widened by 2 percentage points to 41%.

  By mid-July the problems most evident to VoIP customers, namely those relating to voice quality, had been resolved. By the end of August almost all of the problems had been rectified, and we expect agency sales activity levels to increase after the summer. More importantly, the new network structure provides considerable scope for future development and expansion, with no material further investment required.

  In the period the customer churn rate of our CPS offering increased, due to further pricing pressure and due to newer and more sophisticated services now available on the market. VoIP customer acquisition had been offsetting the CPS churn rate and, following in-depth market research, we have introduced enhanced customer retention strategies to address the elevated rate of churn and to enhance VoIP customer acquisition.

Premium Access Services:

Divisional revenues declined by 8% compared with the previous half-year (€29.6 million vs. €32.2 million in H1 2005).

A seasonal decrease in low-margin mobile traffic (as opposed to high-margin fixed-line traffic) contributed to a decline in the division's gross margin. However, this trend has been reversed since period-end and margins are recovering to previous levels. Going forward, now that the billing issues have been resolved, the division is expected to benefit increasingly from more targeted marketing initiatives.

Mobile Content Services:

The first half of 2006 has seen the Mobile Content division continue its rapid growth with a more than six-fold increase in revenues to €5.0 million (H1 2005: €760K); at period end, the total subscriber base stood at 460,000. Gross profits have exceeded our expectations due to higher margins obtained through targeted marketing (55% in H1 2005 versus 78% in H1 2006). The introduction of new services and additional content in our bundled products has also boosted divisional turnover and margins.

From March onwards, the division focused on comprehensive television and print advertising ahead of the World Cup, and a number of new services were introduced that have been very well received. Following Italy's victory, content requests increased significantly and by mid-July the global subscriber base had risen to over half a million.

Our Turkish operations also have been performing ahead of management expectations, with the business now anticipated to break-even well ahead of schedule. Moreover, post period-end we began marketing our services to customers of the remaining two mobile operators in Turkey, giving us 100% market coverage, and we expect this broader market exposure to contribute significantly to the top line going forward.

Outlook:

Despite these recent setbacks, the Board looks forward to an improvement in Teleunit's operational and financial performance. We have taken remedial action to address the issues and are confident of a much improved performance in the second half of the financial year. We have made substantial investment in upgrading the network infrastructure as a platform for future growth and we are placing an increasing emphasis on the two areas demonstrating strongest organic growth, namely mobile content services and VoIP. The management team has been strengthened by the appointments of a new CFO and CTO and I have resumed my executive responsibilities to allow management to focus on implementing our strategies for growth and ensuring the continued efficient operation of the business.

Whilst the losses to June 2006 are frustrating, the causes have been addressed and the Board is determined to return Teleunit to profitability in 2007. Our expectation of steadily improving returns is eminently achievable, given the commitment and enthusiasm of the executive management team.

Gianfranco Cimica **21 September 2006**
Chief Executive Officer
Teleunit SpA

INCOME STATEMENT
For the six months ended 30 June 2006

in thousands of euro	Note	**Six months ended 30 June 2006**	Six months ended 30 June 2005	Year ended 31 December 2005
Sales revenue	2	40,057	40,113	85,404
Cost of sales		(32,710)	(32,286)	(67,208)
Gross profit		7,347	7,827	18,196
Administrative expenses		(1,158)	(948)	(2,710)
Sales and marketing expenses		(4,905)	(2,714)	(6,027)
Other net operating expenses		(3,706)	(2,190)	(4,586)
Total operating expenses		(9,769)	(5,852)	(13,323)
Profit (loss) from operations	2	(2,422)	1,975	4,873
Share of results of associates after tax		103	-	198
Financing (costs)		(1,351)	-	(912)
Financing income		128	562	1,014
Profit (loss) before tax		(3,542)	2,537	5,173
Taxation	3	(27)	(719)	(2,203)
Net (loss) / profit for the period		(3,569)	1,818	2,970
Basic earnings per share (€)	4	(0.0191)	0.0097	0.0160
Diluted earnings per share (€)	4	(0.0187)	0.0096	0.0156

BALANCE SHEET
As at 30 June 2006

in thousands of euro	**As at 30 June 2006**	As at 30 June 2005	As at 31 December 2005
Assets			
Property, plant and equipment	15,300	13,547	14,118
Intangible assets	1,376	815	1,436
Investments in subsidiaries and associates	5,979	1,443	5,759
Other investments	311	306	315
Deferred tax assets	142	121	156
Total non-current assets	23,108	16,232	21,784
Trade receivables	23,877	14,047	23,380
Non-trade receivables	4,885	4,371	3,795
Cash and cash equivalents	14,363	21,545	20,204
Assets classified as held for sale	1,305	764	1,305
Other financial assets	52	52	52
Total current assets	44,482	40,779	48,736
TOTAL ASSETS	67,590	57,011	70,520
Equity			
Issued capital	2,334	2,334	2,334
Reserves	277	257	261
Share premium	12,656	12,656	12,656
Retained earnings	6,268	10,704	11,818
Total equity	21,535	25,951	27,069
Liabilities			
Interest-bearing loans and borrowings	19,764	6,100	20,215
Employee benefits	261	165	207
Provisions	100	100	100
Deferred tax liabilities	1,191	701	1,178
Total non-current liabilities	21,316	7,076	21,700
Bank overdrafts	9,092	10,851	8,106
Interest-bearing loans and borrowings	4,219	1,726	3,253
Trade and other payables	10,399	10,791	9,271
Income tax payable	1,029	616	1,121
Total current liabilities	24,739	23,984	21,751
TOTAL EQUITY AND LIABILITIES	67,590	57,011	70,520

STATEMENT OF CHANGES IN EQUITY
For the six months ended 30 June 2006

in thousands of euro	Share Capital	Legal Reserve	Share Premium	Own shares	Retained Earnings	Total
Balance at 1 January 2005	2,334	194	12,656	(114)	9,025	24,095
Net profit 2005	-	181	-	-	2,789	2,970
Other	-	-	-	-	4	4
Own shares acquired	-	-	-	-	-	-
Shares issues	-	-	-	-	-	-
Balance at 31 December 2005	2,334	375	12,656	(114)	11,818	27,069
Balance at 1 January 2006	2,334	375	12,656	(114)	11,818	27,069
Net profit/(loss) H1 2006	-	-	-	-	(3,569)	(3,569)
Dividend paid	-	-	-	-	(1,860)	(1,860)
Own shares acquired	-	-	-	(100)	-	(100)
Other	-	116	-	-	(121)	(5)
Balance at 30 June 2006	2,334	491	12,656	(214)	6,268	21,535

STATEMENT OF CASH FLOWS

For the six months ended 30 June 2006

in thousands of euro	**Six months ended 30 June 2006**	Six months ended 30 June 2005	Year to 31 December 2005
Operating activities			
Net profit for the year	(3,569)	1,818	2,970
Adjustments for:			
Depreciation and amortisation	1,616	1,140	2,384
Employee benefits	79	65	120
Deferred tax	27	110	551
Other	(103)	-	(322)
	(1,950)	3,133	5,703
(Increase)/Decrease in trade receivables	(497)	(1,359)	(10,694)
(Increase) in non-trade receivables	(1,017)	(663)	(86)
Increase in trade and other payables and income tax	1,128	2,076	2,050
Income tax paid	(171)	19	(971)
Retirement benefits payment	(25)	-	(32)
Other	3	4	(36)
Cash flow from operating activities	(2,529)	3,172	(4,066)
Cash flow from investing activities			
Purchase of property, plant and equipment	(2,625)	(6,697)	(8,920)
Proceeds from sale of fixed assets	-	26	93
Purchase of intangible assets	(111)	(220)	(999)
Purchase of investments in associates	(114)	-	(4,131)
Purchase of other investments	(3)	-	(5)
(Purchase)/Sale of monetary collective investment funds	-	6,598	6,669
Loan to associates	-	(10)	-
Cash flows from investing activities	(2,853)	(303)	(7,293)
Financing activities			
Proceeds from loans and borrowings	515	4,770	20,402
Proceeds from the issue of share capital	-	-	-
Increase in share premium (net of unsubscribed amount)	-	-	-
Payment of transaction costs	-	-	-
Purchase of owned shares	(100)	-	-
Dividends paid	(1,860)	-	
Cash flow / (outflow) from financing activities	(1,445)	4,770	20,402
Net increase / (decrease) in cash and cash equivalents	(6,827)	7,639	9,043
Net cash and cash equivalents at 1 January	12,098	3,055	3,055
Net cash and cash equivalents at period end	5,271	10,694	12,098

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation

(a) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretation adopted by the International Accounting Standards Board (IASB).

The financial statements derive from the books of account of the company, prepared in accordance with Italian GAAP to which appropriate adjustments have been applied.

(b) Basis of preparation

The financial statements are presented in thousands of euro and have been prepared on the historical cost basis except for derivative financial instruments and employee benefit obligations, which are stated at their fair value.

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The accounting policies have been applied consistently to all periods presented in these financial statements. This decision has been taken by management on the premise of better presentation and more accurate classification of elements contained in the income statements.

2. Segmental Information

The following table provides gross profit information regarding these main business segments:

in thousands of euro	**Six months ended 30 June 2006**	Six months ended 30 June 2005
TURNOVER		
Fixed Line	3,111	4,016
Wholesale	1,754	2,378
Wireless Services	505	775
Total Voice and Data Services	**5,370**	**7,169**
Premium Access	29,644	32,180
Mobile Content	5,043	764
Total Turnover	**40,057**	**40,113**
GROSS PROFIT (before amortisation and depreciation)		
Fixed Line	1,283	1,593
Wholesale	(144)	499
Wireless Services	402	586
Total Voice and Data Services	**1,541**	**2,678**
Premium Access	3,413	5,894
Mobile Content	3,923	420
Total Gross Profit (before amortisation, depreciation and personnel expenses)	**8,877**	**8,992**
Amortisation, depreciation and personnel expenses	(1,530)	(1,165)
Total Gross Profit	**7,347**	**7,827**

3. Taxation

Two taxes are applicable to the company:

- Corporate income tax (IRES) at the rate of 33%
- Regional tax (IRAP) at the rate of 4.25%

The difference in tax rates arises from the different basis for the two taxes. Given the loss registered in the first half of 2006, the Company has no current tax liability for the period. In H1 2006 the Company registered a deferred income tax charge of €27,000.

4. Earnings per share

4.1 Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 and 2005 have been determined as net profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares for each period.

Net profit attributable to ordinary shareholders

in thousands of euro	**Six months ended 30 June 2006**	Six months ended 30 June **2005**
Net profit (loss) attributable to ordinary shareholders	(3,569)	1,818

4.2 Diluted earnings per share

Diluted earnings per share are calculated by dividing the profit for the period attributable to shareholders of the Company by the weighted average number of ordinary shares outstanding during the period adjusted for the effects of all potentially dilutive shares (e.g. employees stock options).

Weighted average number of ordinary shares

in thousand of shares	**Six months ended 30 June 2006**	Six months ended 30 June 2005
Issued ordinary shares at the beginning (0.0125 € per share)	186,744	186,744
Effect of shares purchased to be cancelled	-327	-
Weighted average number of ordinary shares in euro	186,417	186,744
Basic (loss)/earnings per share	(0.01915)	0.009735

Weighted average number of ordinary shares (diluted)

in thousands of shares	**Six months ended 30 June 2006**	Six months ended 30 June 2005
Issued ordinary shares at 31 December	186,744	186,744
Effect of shares purchased to be cancelled	-327	-
Effect of shares option agreements	4,253	2,218
Weighted average number of ordinary shares (diluted) at 30 June	190,671	188,962
Diluted earnings per share	(0.01872)	0.00962