



**REPORT ON GROUP OPERATIONS
FOR THE THREE MONTHS FROM JANUARY 1 TO MARCH 31, 2001**

**CONSOLIDATED QUARTERLY ACCOUNTS
FOR THE THREE MONTHS FROM JANUARY 1 TO MARCH 31, 2001**

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD JANUARY 1 TO MARCH 31, 2001

	<i>millions of lire</i>	<i>thousands of euro</i>
A. Total revenues	6,342	3,275
Revenues from sales and services	6,359	3,284
Change in work in progress, semi-finished and finished goods	(32)	(17)
Other revenues	15	8
B. Operating costs	5,497	2,839
Raw and ancillary materials, consumables and goods for resale	811	419
Service costs	1,814	937
Lease expense	212	110
Labor costs:	1,123	580
Amortization, depreciation and write-downs:	1,502	775
Change in inventories of raw and ancillary materials, consumables and goods for resale	(33)	(17)
Other expenses	68	35
Operating income	845	436
C. Net financial income (expense)	1,248	645
D. Adjustments to financial assets	(150)	(77)
E. Extraordinary income (expense), net	66	34
F. Income for the period before taxes	2,009	1,038
I. Minority interest in income (loss) before taxes	-	-
L. Group interest in income before taxes	2,009	1,038

NET FINANCIAL POSITION AS OF MARCH 31, 2001

(millions of lire)

	03.31.2001	12.31.2000
Short-term investments	86,409	97,745
Cash and cash equivalents	9,025	2,614
Short-term bank debt and current portions of long-term bank debt	(422)	(698)
Cash and cash equivalents / (short-term indebtedness), net (A)	95,012	99,661
Medium- and long-term loans	(951)	(979)
Amounts due to shareholders	0	0
Medium- and long-term indebtedness (B)	(951)	(979)
Total cash and cash equivalents/(indebtedness), net (A) +(B)	94,061	98,682

**NOTES TO THE CONSOLIDATED QUARTERLY ACCOUNTS
FOR THE THREE MONTHS FROM OCTOBER 1 TO DECEMBER 31, 2000**

Basis of presentation

The consolidated financial statements as of March 31, 2001 have been prepared on the basis of the accounting policies established by the Italian Regulatory Commission for Companies and the Stock Market (CONSOB) in Annex 3D of resolution no. 11971 of May 14, 1999.

The accounts as of March 31, 2001 used as the basis for the consolidated financial statements were prepared on the basis of the accounting records at such date, integrated by the adjustments necessary to comply with the accruals principle.

The consolidated quarterly financial statements include the financial statements of Acotel Group S.p.A. and those of the Italian and foreign registered companies over which Acotel Group S.p.A. exercises direct or indirect control via control of a majority of the voting rights or of sufficient voting rights to have significant influence at ordinary general meetings.

The following companies have been consolidated as of March 31, 2001:

Company	% control of Group	Registered office	Share capital
Acotel Group S.p.A.	Parent Company	Rome	ITL 2,083,000,000
Acotel S.p.A.	99.9% (1)	Rome	ITL 25,000,000,000
AEM Advanced Electronic Microsystems S.p.A.	99%	Rome	ITL 1,650,000,000
Acomedia S.r.l.	100%	Rome	ITL 30,000,000
Millenium Luxembourg S.A.	100%	Luxembourg	USD 215,000
Millenium Communications S.A.	100% (3)	Luxembourg	USD 180,000
Publimedia S.A.	100%	Luxembourg	USD 35,000
Acotel Do Brasil LTDA	100% (2)	Brazil	BRL 50,000
Acotel Chile S.A.	100% (2)	Chile	USD 50,000
Acotel Espana S.L.	100% (2)	Spain	ESP 500,156
Acotel Greece S.A.	100% (2)	Greece	GRD 20,000,000
Acotel International S.A.	100%	Luxembourg	EURO 32,000

(1) AEM holds 1.92%.

(2) Controlled via Acotel International S.A.

(3) Controlled via Millenium Luxembourg S.A.

Figures in the financial statements are expressed in millions of lire.

Given that the Acotel Group S.p.A. was incorporated on April 6, 2000, prior year accounts for the first quarter are not available for the purposes of comparison.

The net financial position as of March 31, 2001 is compared with the corresponding data from the quarterly accounts as of December 31, 2000.

Consolidation principles

Minority interest in income before taxes

Minority interests in the income of companies in which the Acotel Group does not own 100% of the share capital are recorded in specific items in the accounts.

Related party transactions

Profits and losses and revenues and costs deriving from transactions between consolidated companies and not yet realized in relation to third parties are eliminated.

Foreign currency translation

The income statements of foreign registered companies are translated into Italian Lire applying average exchange rates for the period as published by the Italian Exchange Office. Accounts expressed in the currency of countries participating in the European Monetary Union (EMU) are translated into Lire applying the fixed exchange rates with respect to the Euro.

Other information

The accounting policies applied have not been modified with respect to the previous six-monthly accounts.

Moreover, the data shown is not based on estimates.

This quarterly report is unaudited.

NOTES TO THE INCOME STATEMENT

Revenues from sales and services

The following table shows segment information regarding revenues from sales and services:

(millions of lire)

	January 1 – March 31, 2001
Services to network operators	3,792
Services to corporate customers	351
Design and installation of computer hardware	1,930
Design and production of electronic security equipment	286
Total	6,359

The services provided to network operators, which refer to value added Information Services supplied to fixed and mobile telephone operators in Italy and overseas, represented the Group's most important line of business. Such services earned revenues of Lit. 3,792 million, primarily due to the services supplied to Telecom Italia Mobile.

Revenues from the design and installation of computer hardware amounted to Lit. 1,930 million. Such revenues regard contracts signed in 2000 with "Timnet.com" (Brazil) and "Info2Cell" (United Arab Emirates), which earned the Group Lit. 660 million and Lit. 1,270 million, respectively. The contracts relate to the development of transmission equipment to be used by the customers in their roles as service providers.

Revenues from services provided to corporate customers relate to applications designed and supplied on the basis of the specific needs of the customers concerned. The most important customers in terms of the value of sales are Diners, Borsa Italiana, Centro Servizi Elettronici (CSE), SMS Affari and Alitalia.

Revenues from the design and production of electronic security equipment primarily refer to the design, construction and installation of remote alarm systems and to the supply, installation and maintenance of hardware and software for closed-circuit monitoring systems.

The following table shows a geographical breakdown of revenues from sales and services:

(millions of lire)

	January 1 – March 31, 2001
Italy	4,363
Latin America	726
Middle East	1,270
Total	6,359

Operating costs

Purchases of goods and services and lease expense

This item includes the following:

(millions of lire)

	January 1 – March 31, 2001
Cost of raw and ancillary materials, consumables and goods for resale	811
Service costs	1,814
Lease expense	212
Total	2,837

The *cost of raw and ancillary materials, consumables and goods for resale* refers primarily to the purchase of materials used in the production of telecommunications equipment.

Service costs include, among other things, the cost of services supplied by content providers, totaling Lit. 380 million. Such costs are incurred in order to acquire the information necessary to the Group's role as a service provider. Service costs also include Lit. 476 million for telephone expenses and the cost of connection to terrestrial and satellite transmission networks, similarly linked to the supply of value added services. Other substantial items regard: consultants' fees of Lit. 275 million, which include professional services of an administrative and technical nature linked to the introduction of new services and the installation of equipment; remuneration paid to directors and statutory auditors, totaling Lit. 230 million. The remainder of such costs regards administrative expenses and overhead.

Lease expense refers primarily to rent on the office premises used by the Group's Italian companies.

Labor costs

Labor costs relate to:

(millions of lire)

	January 1 – March 31, 2001
Wages and salaries	793
Social security	272
Employee severance indemnities	37
Other	21
Total	1,123

The following table provides a breakdown of employees by category as of March 31, 2001.

	Number as of March 31, 2001
Senior managers	6
Middle managers	2
Staff	42
Total	50

Amortization, depreciation and write-downs of fixed assets

Amortization, depreciation and write-downs relate to:

(millions of lire)

	January 1 – March 31, 2001
Amortization of intangible fixed assets	1,332
Depreciation of tangible fixed assets	170
Total	1,502

Amortization of intangible fixed assets relates primarily to the capitalized costs connected to the Group's stock market flotation, totaling Lit. 9,099 million. Amortization for the fourth quarter amounted to Lit. 1,137 million. The residual portion relates to research and development costs incurred by AEM in relation to home automation and remote security systems.

The costs of the flotation are amortized over only two years following the Board of Directors' decision to link the period of amortization to the estimated duration of the plan for investment of the liquidity deriving from the flotation.

Depreciation of tangible fixed assets refers to the depreciation of telecommunications equipment.

Other expenses

Such expenses amount to Lit. 68 million and primarily regard non-deductible indirect taxes incurred by the subsidiary, Acotel Do Brasil, in accordance with local regulations.

Net financial income (expense)

Net income of Lit. 1,248 million derives essentially from the combined effect of income from the short-term investment of the liquidity resulting from the flotation and interest expense on loans and other long-term debt, together with bank interest and charges.

FINANCIAL REVIEW

Operating performance

Major events involving the Group during the first quarter of 2001 have included the re-negotiation of its contract with Telecom Italia Mobile, the agreement with the Class Editori Group, the acquisition of an Irish company, Jinny Software Ltd., the contract with Sisal.

- The contract with TIM, which has been renewed until December 31, 2003, regards Acotel's supply of Information Services via SMS, WAP and Voice channels using its own technological platform and after processing of the content provided by the various content providers. In return for the above services, during the first year of the contract TIM is to pay Acotel a monthly fee of Lit. 1,160 million. This is intended as a guaranteed minimum payment for maximum annual traffic of 130 million SMS, 8 million minutes of Voice services and 100 million WAP pages. Traffic volumes in excess of the above will result in further payments from TIM.
- The agreement with Class Editori involves the creation of the first WAP financial portal to be dedicated entirely to financial information. Investors will be able to follow the stock market performances of their shares in real time via the screen of their WAP phone, whichever operator they subscribe to. By accessing the support site ("www.mfwap.it"), investors may construct their own profile by indicating the

stocks and financial news that interest them and that they wish to follow via WAP. Acotel and Class Editori are to take equal shares of the revenues from the service.

- Jinny Software Ltd. is one of the most important Mobile Internet solution providers at international level. The company creates platforms for the transmission of multimedia messages and software applications for the mobile telephone market. Based on open standards, Jinny's products are designed for SMS, WAP, GPRS and the next generation of wireless network. Jinny's customer include mobile operators and financial institutions located around the globe. The company was established in 1999 and has built on its experience of 27 years in the field of wireless communications. Jinny Software operates around the world from its headquarters in Dublin and its commercial office in Dubai.

The acquisition, which was completed in early April 2001, took place via the subscription, by Acotel International S.A., of an increase in Jinny's share capital totaling approximately USD 3 million and the concomitant purchase of the holding owned by the previous shareholders. Payment for the holding was made via the payment of USD 2 million and the provision of a surety of USD 9 million guaranteeing the issue, on the part of Acotel International S.A., of two-year bonds, backed by counter-guarantees granted by a leading bank. Such bonds are to be subscribed by Jinny's previous shareholders.

The acquisition will enable the Acotel Group to integrate the provision of multimedia information services with the supply of the advanced technological platforms developed by Jinny, such as the Mobile Messaging Center (SMS-C), WAP Gateways designed for transitive services and Streaming Voice E-mail Engines.

- The contract entered into with Sisal involves the creation of a service enabling SuperEnalotto players to receive, via SMS sent to their mobile phones, information regarding the results of the lottery draw in which they took part, regardless of which Sisal betting office they submitted their coupon to. It is sufficient to enter a command into a player's mobile phone, with the number of the coupon played, to automatically receive, at the end of the draw, information regarding the player's score and any winnings.

The new service, called Infosisal, also allows players to check the results of past draws up to four months after the event.

At some time in the future, it will also be possible, via the purchase of a prepaid card from one of Sisal's 18,000 betting offices, to play Superenalotto at any time during the day from a player's mobile phone. In addition to submitting the numbers selected, the phone will inform its owner of the result immediately after the draw. The timing of the introduction of this additional service depends entirely on when the relevant ministerial decree, authorizing the new means of playing, will be issued.

Over the coming months Infosisal's functions are to be extended. It is planned to use it to play Totip and Formula 101, and to offer other services providing statistics regarding the numbers played and information regarding overall prizes and draws.

Results of operations

Early in its second year of operation, the Group has consolidated its position as a leader in the Italian market for value added telecommunications services, continuing the growth trend in sales.

Revenues from the services provided to network operators, totaling around Lit. 3.7 billion, confirmed the fact that this is the Group's most important line of business. The figure was up 40.3% on the same period of 2000¹.

During the first quarter of 2001, the "Scriptim by Acotel" service registered over 36.2 million SMS compared with the approximately 21.3 million of the first quarter of 2000, representing an increase of 70%.

¹ The comparison is based on the revenues of the subsidiary, Acotel S.p.A., which offered the same service in 2000.

In the corporate market, the Acotel Group offers Information Services and M-commerce solutions designed and created on the basis of the specific needs of each customer.

Revenues from this line of business rose 12% with respect to the first three months of 2000¹.

Revenues from the production and installation of computer hardware regard the Group's provision, to other service providers, of the technology necessary to supply W-VAS (Wireless Value Added Services) to their customers. Such a service was not provided during the first quarter of 2000.

After direct operating costs, the composition of which is shown above, gross operating income amounted to Lit. 2,346 million.

Charges for amortization and depreciation amounted to Lit. 1,502 million and refer primarily to amortization of the costs of the flotation, totaling Lit. 1,137 million.

After financial income and extraordinary items, the Group's income before taxes, net of the minority interest, amounted to Lit. 2,087 million.

Net financial position

Net cash and cash equivalents as of March 31, 2001 amount to Lit. 94,061 million. The change with respect to December 31, 2000 is primarily due to the following factors:

The subscription of a special capital increase of Lit. 8,347 million, by which the Group acquired 33% of "Info2cell" (Dubai);

Investment in tangible fixed assets of Lit. 2,076 million;

The collection of trade receivables.

The above liquidity is invested in short-term financial instruments via various banks and earning interest of between 4.50% and 5.35%.

SUBSEQUENT EVENTS

As already mentioned, in April 2001 the Acotel Group acquired 100% of the Irish company, Jinny Software Ltd..

Following the acquisition of the company's share capital by Acotel International S.A., Jinny Software Ltd. negotiated a contract worth USD 1.9 million with the Jordanian mobile telephone operator, fast Link. The contract covers the supply of an SMS-C and the development of software applications to meet the specific needs of the new customer.

April also witnessed the signing of contracts between Acotel and Sisal, on the one hand, and Acotel and Telecom Italia Mobile, on the other. The contracts govern the conditions by which TIM subscribers may gain access to the Infosisal service described above.

The Group expects to negotiate similar agreements with Italy's other mobile phone operators in the relatively near future.

In early May, the Group entered into agreement with Editoriale La Nuova Ecologia, a publisher specializing in texts dealing with the environment and which collaborates with Legambiente (*one of Italy's leading environmental organizations*). The agreement relates to the creation of a portal supplying users with services

¹ The comparison is based on the revenues of the subsidiary, Acotel S.p.A., which offered the same service in 2000.

focusing on aspects of social, economic and family life within the context of improving the quality of life and of the environment, and of promoting better safeguards for Italy's historical, artistic and cultural heritage. The site will provide information regarding nutrition, health, tourism, local products and economies and the relevant legislation. Visitors will also be able to purchase the above products on line.

A new agreement has been reached with IBM, regarding the supply of a service that allows the customer to keep in constant contact with its maintenance personnel, wherever they are located in Italy, via SMS communications. The aim is to speed up the maintenance process.

OPERATING OUTLOOK

Renewed collaboration with the country's leading mobile operator, based on the signature of the above-mentioned three-year contract, lays the foundation for the development of new services for both Italian and overseas markets. Indeed, the Group's partnership with TIM, via its presence in international markets, should contribute to an increase in overall traffic volumes despite the fact that the domestic SMS market is at the mature stage.

The acquisition of Jinny Software Ltd. will allow the Group to add to the products offered to both TIM and overseas mobile operators, to whom the Group can now offer a full range of value added services (W-VAS).

The Group also expects to enter into further agreements regarding the acquisition of equity stakes in companies, in which other Italian businesses that provide services to end users hold interests. The Group intends to supply such companies with technology and support for the planning and development of value added services.