

ACOTEL GROUP S.P.A.

**REPORT ON GROUP OPERATIONS
FOR THE FIRST SIX MONTHS OF 2001**



OPERATING PERFORMANCE

The Acotel Group's activities during the first half of 2001 focused on three main areas:

- consolidation of its business relations in its domestic market, including via the acquisition of interests in other companies;
- overseas expansion;
- extension of its range of products and services.

The first line of action included re-negotiation of the contract with Telecom Italia Mobile, implementation of the Group's agreement with Sisal, the drawing up of a new agreement with IBM and the contract signed with ACEA.

- a) The new contract with TIM, valid until December 31, 2003, provides for the supply by Acotel of Information Services on text messages, WAP and Voice channels through its own Technological Platform after processing the contents supplied by the various content providers. For the provision of the above mentioned services TIM will pay Acotel a monthly fee of Lit. 1,160 million during the first year of validity of the contract, which is to be taken as the guaranteed minimum remuneration for a maximum annual traffic of 130 million text messages, 8 million minutes of voice services and 100 million WAP pages: higher volumes of traffic will be paid extra by TIM.
- b) The contract entered into with Sisal provides for the creation of a service that, from June 2001, enables players of *SuperEnalotto* to receive information on their own mobile phone, via text message, about the results of the bets made by them in any Sisal office: all they have to do is type a command on their mobile, entering the number of the coupon played and they automatically receive a reply informing them about their score and their winnings, if any, after the draw. Infosisal, is the name of the service, which is expected to come into operation before the end of next April; it will also make it possible to check on results obtained in previous draws, up to four months back. Later on, at a time depending solely on the issue of the ministerial decree authorising the new ways of taking bets, it will also be possible, by buying a prepaid card in one of the 18,000 Sisal offices, to play *Superenalotto* at any time of the day, using one's own mobile phone which informs the player of the result immediately after the draw. During the coming months Infosisal will be expanded: it is planned to use it for *Totip* and Formula 101 (which are pools respectively on horse races, and F1 championship) competitions also and to implement other services with statistics on the numbers and information on the jackpots and the draws.
- c) The new agreement with IBM involves the implementation of a service allowing the customer to communicate with its maintenance personnel via SMS, wherever they may be located in the country. In this way, IBM aims to optimize and speed up the deployment of staff.
- d) On May 18, 2001 the Group signed an outline agreement with ACEA S.p.A. regarding the supply of a personalized technological platform to Voinoi S.p.A., the ACEA Group company established with the aim of offering consumers value added customer care services. The platform to be constructed by the Group for Voinoi S.p.A. will allow any form or quantity of information, deriving from various sources, to be processed and transmitted to end users, whenever and by whatever means required, via any form of communication. Voinoi S.p.A. was set up with the aim of providing end users – starting from ACEA's customers in the Rome area (representing a customer base of over 3,500,000 inhabitants) – with access, via a sole provider, to payment services for utilities, emergency assistance, secure and easy access to *e-commerce* for the purchase of commercial services selected from the very best

available on the market, personal and home security services and any other form of personalized service designed to meet the specific needs of the individual customer.

The primary goals laid down in Voinei S.p.A.'s business plan are as follows:

- the creation of more than 70 new multimedia services in 5 years;
- the installation of over 230,000 home terminals;
- over 500,000 customers in 5 years;
- turnover of over Lit. 200 billion in 5 years;
- to reach break-even point by 2003;
- stock market flotation in 2004;
- duplication of the same model in at least 3 other cities.

The agreement provides for the payment of Lit. 15,000 million in return for the platform, to be specially designed and installed by the Group on behalf of Voinei S.p.A.. This sum is subject to an opinion regarding its fairness in compliance with art. 2343-bis of the Italian Civil Code. As part of the agreement, the Acotel Group has agreed to subscribe shares in Voinei S.p.A. up to a maximum amount of Lit. 5,000 million, to be issued in the form of a capital increase. This will give the Group a 10% stake in ACEA SpA's subsidiary.

The agreement also covers Acotel's supply of creative and technical support over the next 10 years, in relation to the development of the products and services to be offered by Voinei S.p.A.. The Group is to receive an overall fee of Lit. 11,000 million in return. Further revenues may derive from the production of content and the supply of the home terminals, which will allow end users to access a number of the services provided by Voinei S.p.A., including via interactive use of televisions.

The Acotel Group's overseas expansion has taken shape via the construction of technological platforms commissioned by Info2cell and Timnet.com.

- a) On the basis of an agreement signed at the end of 2000, in February 2001 the Acotel Group finalized the acquisition of 33% of "Info2cell", a company located in Dubai (United Arab Emirates). The company possesses excellent know-how and a strong brand as a content provider for mobile telecommunications in throughout all Middle Eastern markets. Thanks to this agreement, the Acotel Group has positioned itself as the leading provider of wireless information services in one of world's fastest growing markets.

The holding was acquired via the subscription of a specially arranged capital increase amounting to 4,000,000 US dollars. The Group has an option on a further 33% of Info2cell's shares at a price variable in relation to the company's earnings to December 31, 2002. Info2cell has also bought the technology and license enabling the use of the W-VAS services developed by the Acotel Group for a total sum of 2,500,000 US dollars, of which 1,000,000 falling due in 2001. During the first half of 2001, Info2cell negotiated contracts to supply value added services to operators in Jordan (Fastlink), the United Arab Emirates (Etisalat) and Egypt (Mobinil).

- b) Acotel Do Brasil has entered into agreement with Timnet.com, the TIM Group's Brazilian affiliate set up to supply advanced, innovative and readily accessible services to three Brazilian mobile operators, Tele Celular Sud, Tele Nordeste Celular and Maxitel. This has involved the construction of a technological platform ("wireless portal") for the distribution of content (general and financial information, extracts from the Bible, etc.) and already set up to execute business transactions (Mobile commerce). In the first six months of 2001, the platform installed by the Acotel Group has produced almost 60 million messages, providing proof of the Brazilian market's enormous potential.

The extension of the Group's range of products and services has seen the acquisition, of 100% of the Irish company, Jinny Software Ltd., one of the most important mobile internet solution providers at international level. The purchase was finalized on April 9, 2001. The operation has enabled the Acotel Group to achieve its goal of expanding the range of products and services on offer, via the acquisition of important technological know-how in the production of data communications equipment. It has also allowed the Group to reinforce its presence in the European market (particularly Britain), where it was already a player in Spain and Greece, in addition to Italy. Jinny Software creates platforms for broadcasting multimedia messages and applications software for the mobile telephony market. Based on open standards, Jinny's products are designed for next-generation text messages, WAP, GPRS and wireless networks. Jinny's customers include mobile operators and financial institutions in Europe and the Middle East. The company was set up in 1999 and is the fruit of 27 years of experience in the field of wireless communications. It operates at international level from its headquarters in Dublin and its commercial office in Dubai.

The operation consisted in the subscription by Acotel International S.A. of an increase in the share capital of Jinny, totaling about 3 million US dollars, and the concomitant purchase of the shares held by the previous shareholders. This stake was acquired via the payment of 2 million US dollars in cash and the issue, carried out by Acotel International S.A. on August 2, 2001, of bonds with a value of 9,000,000 US dollars to the previous owners of Jinny. The bonds are redeemable as a lump sum on maturity (April 9, 2003) and are subject to coupon interest of 1.5% per annum.

As a result of this operation the Acotel Group has been able to complement its offer of multimedia information services with the supply of the advanced technological platforms developed by Jinny, such as Mobiel Messaging Centers (SMS-C), the WAP Gateway for transactional services and Streaming Voice E-mail Engines.

The Irish company also holds a 99.9% interest in Millennium Software S.a.l., a Lebanese company, which produces operating software for data communications equipment.

Following Acotel International S.A.'s acquisition of the company's share capital, Jinny Software Ltd. negotiated a 1.9 million US dollar contract to supply an SMS-C to the Jordanian mobile operator, Fast Link. The contract also covers the development of applications designed to meet the specific needs of the customer.

FINANCIAL REVIEW

RESULTS OF OPERATIONS

The Acotel Group S.p.A. was incorporated on April 6, 2000 and assumed the role of Parent Company on April 28, 2000. Therefore, with the exception of revenues, for which pro-forma figures is available for the first half of 2000, comparative data is not provided.

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

<i>(in millions of lire)</i>	1st half 2001
Total revenues	15,604
Materials and service costs	7,996
Gross margin	7,608
Labor costs	3,658
EBITDA	3,950
Depreciation	569
Amortization	3,343
Provisions for doubtful accounts	0
EBIT	38
Net financial income (expense)	1,357
Income (loss) from ordinary activities	1,395
Adjustments to financial assets	(706)
Extraordinary income (loss), net	324
Income before taxes	1,013
Minority interest	(2)
Group net income before taxes	1,015

Revenues from sales and services break down by business segment as follows:

(in million of lire)

	1st half 2001	1st half 2000 (pro-forma)
Services to network operators	7,537	5,632
Services to corporate customers	841	578
Design and installation of data communications equipment	5,303	-
Design and production of electronic security equipment	832	863
Other	-	187
Total	14,519	7,260

Total revenues for the first six months of 2001 amounted to Lit. 14,519 million, practically double the figure of a year earlier.

Services to network operators consist of value-added Information Services provided to Italian and foreign operators of fixed and mobile telephony, via the data communications platform. Such services remain the Group's core business, bringing in revenues of Lit. 7,537 million during the first six months of 2001. This represented an increase of 33.8% with respect to the pro-forma figure for the first half of 2000. The above revenues derive primarily from services provided to Telecom Italia Mobile.

Revenues from the provision of services to corporate customers, totaling Lit. 841 million, rose by 45.5% with respect to the first half of 2000.

The corporate segment regards applications designed and created on the basis of customers' specifications and particular needs. In addition to the implementation of personalized information services, this segment may also involve the supply of the data communications equipment used to transmit the information. The Group's major customers in terms of turnover are Diners, Borsa Italiana, Centro Servizi Elettronici (CSE), SMS Affari and Alitalia.

Revenues from the design and installation of data communications equipment amounted to Lit. 5,303 million. This segment is the newest among the lines of business entered into by the Group and involves the commercial exploitation of the technological know-how generated internally, via development and management of the data communications platform used to provide information services. Revenues relate to the contracts signed in 2000 with Timnet.com (Brazil) and "Info2Cell" (United Arab Emirates), having a value of Lit. 1,165 million and Lit. 1,285 million, respectively. These are to be added to the revenues earned via Jinny Software Ltd., which, between April 9, and June 30, 2001, amounted to Lit. 2,853 million. The latter revenues are earned mainly in the Irish and Middle Eastern markets.

Revenues from the design and production of electronic security equipment relates mainly to the activities of design, construction and installation of peripheral security stations and of the supply, installation and maintenance of hardware and software for remote surveillance. This activity, carried out via the subsidiary, AEM S.p.A., primarily covers technical assistance and maintenance services regarding remote surveillance systems installed at police headquarters in Italy. This segment generated revenues of Lit. 832 million during the first half of 2001, substantially in line with the same period of 2000.

The geographical distribution of revenues from sales and services is as follows:

(in millions of lire)

	1st half 2001	1st half 2000 (pro-forma)
Italy	9,128	6,323
Europe	554	868
Latin America	1,253	69
Middle East	3,584	-
Total	14,519	7,260

A comparison of the six-monthly data for 2001 and 2000 (pro-forma) shows that overseas revenues have more than quadrupled, whilst their contribution to total turnover is up from 12.9% to 37.1%. The growth trend witnessed in the first half of 2001 is also borne out by comparison with the data (pro-forma) for 2000 as a whole, where such revenues contributed 31% of turnover.

The most significant items among operating costs are:

- raw materials, consumables and goods for resale, which amounted to Lit. 2,526 million and primarily regard the purchase of electronic components used in the production of the data communications equipment sold by the Group;
- service costs, amounting to Lit. 4,960 million, including the information content bought from providers for Lit. 713 million and the cost of land and satellite telephone connections totaling Lit. 1,087 million. Both items are directly linked to the creation of value added information services;
- personnel costs amounting to Lit. 3,658 million.

As a result of the direct management of operations, EBITDA amounted to Lit. 3,950 million, representing a margin of 25.3%.

This result reflected the increased costs linked to expansion of the Group's operating structure and the loss for the period reported by Jinny Software Ltd.

EBIT totaled Lit. 38 million for the first half, after substantial charges for amortization and depreciation. Amortization of intangible assets, totaling Lit. 3,343 million, primarily relates to the capitalized costs of the global offering (Lit. 2,277 million) and goodwill arising from consolidation in relation to acquisition of Jinny Software Ltd. (Lit. 661 million).

Treasury management reported a profit of Lit. 1,357 million, despite being somewhat penalized by adjustments to the value of accounts receivable and payable denominated in foreign currency, in order to reflect period-end rates. This resulted in financial income for the period of Lit. 2,198 million being offset by losses of Lit. 724 million, as a result of translation adjustments.

Following the write-down of the value of the Group's holding in the associated company, "Info2cell.com" (Lit. 706 million) and after extraordinary items and minority interests in the results of associated companies and subsidiaries, net income for the first half of 2001 (before income taxes) amounted to 1,015 million.

FINANCIAL POSITION

RECLASSIFIED CONSOLIDATED BALANCE SHEET

	June 30, 2001	December 31, 2000
ASSETS		
Fixed assets	42,681	8,024
Intangible assets	29,949	6,545
Tangible assets	5,148	1,479
Investments	7,584	-
Current assets	101,877	116,368
Inventories	988	868
Accounts receivable	15,377	15,141
Short-term financial assets	54,898	97,745
Cash and cash equivalents	30,614	2,614
Accrued income and prepaid expenses	195	202
Total assets	144,753	124,594
LIABILITIES		
Shareholders' equity	113,222	111,888
Group shareholders' equity	113,142	111,815
Share capital	2,085	2,083
Share premium reserve	106,714	106,368
Legal reserve	118	-
Other reserves	1,692	1,702
Retained earnings (accumulated losses)	1,518	-
Group net income (loss) for the period	1,015	1,662
Minority interest	80	73
Allowances for risks and charges	-	106
Employee severance indemnities	360	291
Accounts payable	31,171	12,306
Debt	1,238	1,677
Advances	2,638	3,396
Trade payables	4,597	4,076
Taxes due	284	2,429
Due to social security agencies	323	271
Other	22,091	457
Accrued expenses and deferred income	-	3
Total liabilities	144,753	124,594

The financial position as of June 30, 2001 reflects the principal events involving the Group during the first half of 2001.

A comparison with the data for December 31, 2000 shows that intangible assets increased by a net amount of Lit. 23,404 million, primarily due to goodwill arising from consolidation of the holding in Jinny Software Ltd., acquired in April 2001.

Tangible assets rose by Lit. 5,148 million, more than tripling with respect to the end of 2000. This was partly due to Jinny Software Ltd.'s entry into the Group and in part to capital expenditure aimed at continuously upgrading the technology used in the data communications equipment.

The value of long-term investments rose following the acquisition of 33% of the share capital of the associated company, Info2cell.com, which was completed in February 2001.

As a result of the investment carried out, the Group's liquidity was reduced from Lit. 100,359 million to Lit. 85,512 million.

The principal changes among liabilities regard the increase in sundry payables and the reduction in taxes due.

The former was also due to the acquisition of Jinny Software Ltd., as the item includes the debt of 9 million US dollars, equal to Lit. 20,550 million, owed to the previous owners of the Irish subsidiary. The latter was due to the payment of income taxes for 2000 within the first half of the year.

The above movements in the balance sheet are also reflected in the net debt position and the cash flows shown in the following statement of cash flows. The relevant tables follow.

Net debt

(in millions of lire)

	06.30.2001	12.31.2000
Short-term investments	54,898	97,745
Cash and cash equivalents	30,614	2,614
Short-term bank debt and current portions of long-term bank debt	(189)	(698)
Cash and cash equivalents / (short-term indebtedness), net (A)	85,323	99,661
Medium- and long-term debt	(1,049)	(979)
Medium- to long-term indebtedness (B)	(1,049)	(979)
Net debt (A)+(B)	84,274	98,682

Consolidated statement of cash flows for the first half of 2001

<i>(in millions of lire)</i>	1st half 2001	2000
A. NET CASH AT THE BEGINNING OF THE PERIOD	99,661	-
B. CASH FLOWS FROM (FOR) OPERATING ACTIVITIES	23,842	2,201
Net income for the period	1,015	1,662
Amortization and depreciation	3,912	5,720
Net change in employee severance indemnities	69	291
Net change in allowances for risks and charges	(106)	106
Cash flows from operating activities before changes in working capital	4,890	7,779
(Increase) / decrease in accounts receivable	(236)	(15,141)
(Increase) / decrease in inventories	(120)	(868)
Increase / (decrease) in accounts payable	20,062	7,232
Changes in other items of working capital	(754)	3,199
C. CASH FLOWS FROM (FOR) INVESTING ACTIVITIES	(38,569)	(13,744)
(Investment)/disposal of fixed assets:		
- Intangibles	(26,747)	(11,656)
- Tangibles	(4,238)	(2,088)
- Financial	(7,584)	-
D. CASH FLOWS FROM (FOR) FINANCING ACTIVITIES	389	111,205
Increase / (decrease) in long-term debt	70	979
Increase in share capital	2	2,083
Increase in share premium reserve	346	106,368
Change in other reserves	(36)	1,702
Change in minority interest	7	73
E. CASH FLOW FOR THE PERIOD (B+C+D)	(14,338)	99,661
F. NET CASH AT THE END OF THE PERIOD (A+E)	85,323	99,661

RELATED PARTY TRANSACTIONS

Relations with associated companies

During the first six months of 2001, Acotel Group S.p.A. earned revenues of Lit. 1,285 million from Info2cell.com (United Arab Emirates), a company in which it has a 33% interest via the subsidiary, Acotel International S.A.. Such revenues derive from the contract regarding the supply of data communications equipment signed in December 2000. The amount due under the contract, amounting to Lit. 5,192 million (2.5 million US dollars) as of December 31, 2000, was also fully collected during the first half of 2001.

Shareholdings of Directors and Statutory Auditors

The following table shows a breakdown of Directors' and Statutory Auditors' shareholdings in the Group:

name	Group company	no. of shares held at December 31, 2001	no. of shares purchased	no. of shares sold	no. of shares held at June 30, 2001
Claudio Carnevale (a)	Acotel Group S.p.A.	1,158,350	-	-	1,158,350
Andrea Morante	Acotel Group S.p.A.	43,167	-	-	43,167
Claudio Carnevale	Acotel S.p.A.	20,000	-	-	20,000
Claudio Carnevale	AEM S.p.A.	16,500	-	-	16,500

(a) Ownership is exercised via Clama S.A., which is wholly owned by Claudio Carnevale

Claudio Carnevale and Margherita Argenziano each hold 25% of the share capital of Clama S.r.l., which, in turn, holds 1,800,000 shares in Acotel Group S.p.A..

Fees paid to shareholders for membership of corporate bodies

Claudio Carnevale has earned the following fees during the first half of 2001:

- Lit. 200 million as Chairman of the Board of Directors of Acotel Group S.p.A.;
- Lit. 50 million as Chairman of the Board of Directors of Acotel S.p.A.;
- Lit. 50 million as Chairman of the Board of Directors of AEM S.p.A.

Margherita Argenziano earned fees of Lit. 40,000,000 as Managing Director of AEM S.p.A..

OTHER INFORMATION

As of June 30, 2000, Acotel Group S.p.A. did not own any treasury shares, or shares or holdings in parent companies, either directly or through a trust company or proxy.

As of June 30, no branch offices of the Company had been set up.

THE EURO

The transformation of the accounting systems of Group companies operating in countries involved in monetary union will begin in September 2001.

The Luxembourg subsidiary, Acotel International S.A., already publishes its financial statements in euro.

In view of the flexibility allowed during the transition period (until January 1, 2002) it is not expected that significant operational problems will arise or that significant costs will be incurred for the conversion of accounting systems into euro.

CONSOLIDATED ACCOUNTS

CONSOLIDATED BALANCE SHEET

ASSETS

<i>(in millions of lire)</i>	<u>June 30, 2001</u>	<u>December 31, 2000</u>	<u>June 30, 2000</u>
Unpaid, called-up share capital due from shareholders	-	-	-
Fixed assets:			
<i>Intangible assets</i>			
Incorporation and expansion costs	2,325	4,606	330
Research, development and advertising costs	468	673	878
Industrial patents and intellectual property rights	326	253	247
Concessions, licences, trademarks and similar rights	113	107	107
Goodwill arising from consolidation	26,637	836	881
Intangibles in process and advances	9	9	8
Other	71	61	94
Total	29,949	6,545	2,545
<i>Tangible assets</i>			
Plant and machinery	3,012	506	468
Industrial and commercial equipment	663	667	511
Other	364	270	210
Work in progress and advances	1,109	36	-
Total	5,148	1,479	1,189
<i>Long-term financial assets</i>			
- investments in:			
<i>. associated companies</i>	7,584	-	-
Total	7,584	-	-
Total fixed assets	42,681	8,024	3,734
Current assets:			
<i>Inventories</i>			
Raw and ancillary materials and consumables	401	243	376
Work in progress and semi-finished goods	487	479	840
Finished goods and goods for resale	100	146	78
Total	988	868	1,294
<i>Accounts receivable</i>			
Trade			
<i>receivable within 12 months</i>	12,786	13,506	5,794
Other			
<i>receivable within 12 months</i>	49,108	91,186	940
<i>receivable beyond 12 months</i>	189	45	34
Total	62,083	104,737	6,768
<i>Marketable securities</i>			
other securities	8,192	8,149	-
Total	8,192	8,149	-
<i>Cash at bank and on hand</i>			
Bank and post office deposits	30,590	2,598	20,748
Cash and notes on hand	24	16	24
Total	30,614	2,614	20,772
Total current assets	101,877	116,368	28,834
Accrued income and prepaid expenses			
other	195	202	4
TOTAL ASSETS	144,753	124,594	32,572

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

<i>(in millions of lire)</i>	<u>June 30, 2001</u>	<u>December 31, 2000</u>	<u>June 30, 2000</u>
Shareholders' equity:			
Share capital	2,085	2,083	1,667
Share premium reserve	106,714	106,368	19,833
Revaluation reserve	-	-	-
Legal reserve	118	-	-
Reserve for treasury stock	-	-	-
Statutory reserves	-	-	-
Other reserves			
- Consolidation reserve	1,760	1,760	2,570
- Reserve for exchange rate differences	(68)	(58)	43
Retained earnings (accumulated losses)	1,518	-	-
Net income (loss) for the period - (a)	1,015	1,662	858
Total	113,142	111,815	24,971
Minority interest:			
Minority interest in shareholders' equity	82	77	54
Minority interest in net income (loss) for the period - (a)	(2)	(4)	-
Total	80	73	54
Total shareholders' equity	113,222	111,888	25,025
Allowances for risks and charges:			
Other	-	106	-
Total	-	106	-
Employee severance indemnities	360	291	473
Accounts payable			
Banks			
<i>payable within 12 months</i>	189	698	1,889
<i>payable beyond 12 months</i>	466	513	700
Other lenders			
<i>payable beyond 12 months</i>	583	466	466
Advances			
<i>payable within 12 months</i>	2,638	3,396	-
Trade			
<i>payable within 12 months</i>	4,597	4,076	2,947
Taxes			
<i>payable within 12 months</i>	284	2,429	559
Social security agencies			
<i>payable within 12 months</i>	319	266	130
<i>payable beyond 12 months</i>	4	5	-
Other			
<i>payable within 12 months</i>	22,091	457	383
Total	31,171	12,306	7,074
Accrued expenses and deferred income			
Other	-	3	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	144,753	124,594	32,572

(a) the results for the six months to June 30, 2001 and 2000 are pre-tax

MEMORANDUM ACCOUNTS

<i>(in millions of lire)</i>	<u>June 30, 2001</u>	<u>December 31, 2000</u>	<u>June 30, 2000</u>
General guarantees granted			
Guarantees in favor of others	198	198	-
Commitments:			
To purchase equity investments	-	8,341	-
Other			
Leased assets	-	-	7
Third-party assets used by the Group	71	71	93
TOTAL MEMORANDUM ACCOUNTS	<u>269</u>	<u>8,610</u>	<u>100</u>

CONSOLIDATED INCOME STATEMENT

<i>(in millions of lire)</i>	Jan. 1 - June 30, 2001	Apr. 6 - Dec. 31, 2000 (a)	Apr. 6 - June 30, 2000 (a)
Total revenues:			
Revenues from the sale of goods and services	14,519	15,655	2,683
Change in work in progress, semi-finished goods and finished goods	(38)	(173)	(106)
Capitalized costs and expenses	1,108	-	-
Other revenues and income	15	405	400
Total	15,604	15,887	2,977
Operating costs:			
Raw and ancillary materials and consumables	2,526	304	473
Service costs	4,960	4,490	706
Lease expense	516	313	82
Labor costs:	3,658	2,187	429
. wages and salaries	2,846	1,562	302
. social security contributions	648	515	84
. employee severance indemnities	112	110	43
. other costs	52	-	-
Amortization, depreciation and write-downs	3,912	5,816	347
. amortization of intangible fixed assets	3,343	5,111	174
. depreciation of tangible fixed assets	569	609	156
. provisions for doubtful accounts	-	96	17
Change in raw and ancillary materials, consumables and goods for resale	(158)	397	39
Other operating costs	152	397	51
Total	15,566	13,904	2,127
Operating income	38	1,983	850
Financial income and expense:			
Income	2,844	1,784	-
Expense	(1,487)	(493)	(28)
Net financial income (expense)	1,357	1,291	(28)
Adjustments to financial assets	(706)	-	-
Extraordinary income and expense			
Income	397	20	39
Expense	(74)	(22)	-
Extraordinary income (expense), net	324	(2)	39
- income taxes for the year	-	(1,614)	-
Net income (loss) for the period (b)	1,013	1,658	861
Minority interest	(2)	(4)	3
Group net income for the period (b)	1,015	1,662	858

(a) Acotel Group S.p.A. was incorporated on April 6, 2000, and for this reason the comparative data, derived from the annual accounts as of December 31, 2000 and the six-month accounts as of June 30, 2000, refer to that date.

(b) the results for the six months to June 30, 2001 and 2000 are pre-tax

CONSOLIDATED BALANCE SHEET

ASSETS

(in thousands of euros)

	June 30, 2001	#	December 31, 2000	#	June 30, 2000
Unpaid, called-up share capital due from shareholders	-		-		-
Fixed assets:					
<i>Intangible assets</i>					
Incorporation and expansion costs	1,201		2,379		170
Research, development and advertising costs	242		347		453
Industrial patents and intellectual property rights	168		131		128
Concessions, licences, trademarks and similar rights	58		55		55
Goodwill arising from consolidation	13,757		432		455
Intangibles in process and advances	5		5		4
Other	36		31		49
Total	15,467		3,380		1,314
<i>Tangible assets</i>					
Plant and machinery	1,556		262		242
Industrial and commercial equipment	342		344		264
Other	188		139		108
Work in progress and advances	573		19		-
Total	2,659		764		614
<i>Long-term financial assets</i>					
- investments in:					
. associated companies	3,917		-		-
Total	3,917		-		-
Total fixed assets	22,043		4,144		1,928
Current assets:					
<i>Inventories</i>					
Raw and ancillary materials and consumables	207		126		194
Work in progress and semi-finished goods	252		247		434
Finished goods and goods for resale	51		75		40
Total	510		448		668
<i>Accounts receivable</i>					
Trade					
receivable within 12 months	6,603		6,975		2,993
Other					
receivable within 12 months	25,362		47,094		485
receivable beyond 12 months	98		23		18
Total	32,063		54,092		3,496
<i>Marketable securities</i>					
other securities	4,231		4,209		-
Total	4,231		4,209		-
<i>Cash at bank and on hand</i>					
Bank and post office deposits	15,799		1,342		10,716
Cash and notes on hand	12		8		12
Total	15,811		1,350		10,728
Total current assets	52,615		60,099		14,892
Accrued income and prepaid expenses					
other	101		104		2
TOTAL ASSETS	74,759		64,347		16,822

CONSOLIDATED BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

<i>(in thousands of euros)</i>	<u>June 30, 2001</u>	<u>December 31, 2000</u>	<u>June 30, 2000</u>
Shareholders' equity:			
Share capital	1,077	1,076	861
Share premium reserve	55,113	54,934	10,243
Revaluation reserve	-	-	-
Legal reserve	61	-	-
Reserve for treasury stock	-	-	-
Statutory reserves	-	-	-
Other reserves			
- Consolidation reserve	909	909	1,327
- Reserve for exchange rate differences	(35)	(30)	22
Retained earnings (accumulated losses)	784	-	-
Net income (loss) for the period - (a)	524	858	443
Total	58,433	57,747	12,896
Minority interest:			
Minority interest in shareholders' equity	42	40	28
Minority interest in net income (loss) for the period - (a)	(1)	(2)	-
Total	41	38	28
Total shareholders' equity	58,474	57,785	12,924
Allowances for risks and charges:			
Other	-	55	-
Total	-	55	-
Employee severance indemnities	186	150	244
Accounts payable:			
Banks			
<i>payable within 12 months</i>	98	361	975
<i>payable beyond 12 months</i>	241	265	362
Other lenders			
<i>payable beyond 12 months</i>	301	241	241
Advances			
<i>payable within 12 months</i>	1,362	1,754	-
Trade			
<i>payable within 12 months</i>	2,374	2,105	1,522
Taxes			
<i>payable within 12 months</i>	147	1,254	289
Social security agencies			
<i>payable within 12 months</i>	165	137	67
<i>payable beyond 12 months</i>	2	3	-
Other			
<i>payable within 12 months</i>	11,409	236	198
Total	16,099	6,356	3,654
Accrued expenses and deferred income			
Other	-	1	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	74,759	64,347	16,822

(a) the results for the six months to June 30, 2001 and 2000 are pre-tax

MEMORANDUM ACCOUNTS

<i>(in thousands of euros)</i>	<u>June 30, 2001</u>	<u>December 31, 2000</u>	<u>June 30, 2000</u>
General guarantees granted			
Guarantees in favor of others	102	102	-
Commitments:			
To purchase equity investments	-	4,308	-
Other			
Leased assets			4
Third-party assets used by the Group	37	37	48
TOTAL MEMORANDUM ACCOUNTS	<u>139</u>	<u>4,447</u>	<u>52</u>

CONSOLIDATED INCOME STATEMENT

<i>(in thousands of euros)</i>	Jan. 1 - June 30, 2001	Apr. 6 - Dec. 31, 2000 (a)	Apr. 6 - June 30, 2000 (a)
Total revenues:			
Revenues from the sale of goods and services	7,499	8,085	1,386
Change in work in progress, semi-finished goods and finished goods	(20)	(89)	(55)
Capitalized costs and expenses	572	-	-
Other revenues and income	8	209	207
Total	8,059	8,205	1,538
Operating costs:			
Raw and ancillary materials and consumables	1,305	157	244
Service costs	2,562	2,319	365
Lease expense	266	162	42
Labor costs:	1,889	1,129	221
. wages and salaries	1,470	807	156
. social security contributions	334	266	43
. employee severance indemnities	58	56	22
. other costs	27	-	-
Amortization, depreciation and write-downs	2,020	3,004	181
. amortization of intangible fixed assets	1,726	2,640	90
. depreciation of tangible fixed assets	294	314	82
. provisions for doubtful accounts	-	50	9
Change in raw and ancillary materials, consumables and goods for resale	(82)	205	20
Other operating costs	79	205	26
Total	8,039	7,181	1,099
Operating income	20	1,024	439
Financial income and expense:			
Income	1,469	921	-
Expense	(768)	(254)	(14)
Net financial income (expense)	701	667	(14)
Adjustments to financial assets	(365)	-	-
Extraordinary income and expense			
Income	205	10	20
Expense	(38)	(11)	-
Extraordinary income (expense), net	167	(1)	20
- income taxes for the year	-	(834)	-
Net income (loss) for the period (b)	523	856	445
Minority interest	(1)	(2)	2
Group net income for the period (b)	524	858	443

(a) Acotel Group S.p.A. was incorporated on April 6, 2000, and for this reason the comparative data, derived from the annual accounts as of December 31, 2000 and the six-month accounts as of June 30, 2000, refer to that date.

(b) the results for the six months to June 30, 2001 and 2000 are pre-tax

**NOTES TO THE
CONSOLIDATED ACCOUNTS**

The consolidated accounts as of June 30, 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 resolution no. 11971 of May 14, 1999.

The Company has adopted the faculty granted by the above resolution of the CONSOB, reporting net income before taxes.

The accounts as of June 30, 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 six-monthly accounts include the accounts 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 June 30, 2001:

Company	Date of acquisition (1)	Group's ownership (%)	Registered office	Share capital
Acotel S.p.A.	April 28, 2000	99.9% (2)	Rome	ITL 25,000,000,000
AEM Advanced Electronic Microsystems S.p.A.	April 28, 2000	99%	Rome	ITL 1,650,000,000
Acomedia S.r.l.	April 28, 2000	100%	Rome	ITL 30,000,000
Acotel International S.A.	April 28, 2000	100%	Luxembourg	EURO 32,000
Acotel Chile S.A.	April 28, 2000	100% (3)	Chile	USD 50,000
Acotel Espana S.L.	April 28, 2000	100% (3)	Spain	ESP 500,156
Acotel Greece S.A.	April 28, 2000	100% (3)	Greece	GRD 20,000,000
Acotel Do Brasil LTDA	August 8, 2000	100% (3)	Brazil	BRL 50,000
Jinny Software Ltd.	April 9, 2001	100% (3)	Ireland	EURO 2,927
Millennium Software SAL	April 9, 2001	99.9% (5)	Lebanon	LPD 30,000,000
Millenium Luxembourg S.A.	April 28, 2000	100%	Luxembourg	USD 215,000
Millenium Communications S.A.	April 28, 2000	100% (4)	Luxembourg	USD 180,000
Publimedia S.A.	April 28, 2000	100%	Luxembourg	USD 35,000

(1) All the subsidiaries were acquired on April 28, 2000. They already existed, with exception of Acotel Do Brasil acquired on August 8, 2000, the date of its incorporation.

(2) AEM owns 1.92% of the share capital.

(3) Controlled via Acotel International S.A.

(4) Controlled via Millenium Luxembourg S.A.

(5) Controlled via Jinny Software Ltd.

Jinny Software Ltd. and its subsidiary, Millennium Software SAL, were consolidated as of April 9, 2001, the date of their acquisition.

CONSOLIDATION PRINCIPLES

The assets and liabilities of consolidated companies are recorded on a line-by-line basis, eliminating the book value of the shareholdings consolidated in relation to the shareholders' equity of subsidiaries.

The difference between the cost of acquisition and the fair value of the shareholders' equity of subsidiaries on the date of acquisition is recorded as "Goodwill arising from consolidation" under intangible assets and amortized, or under shareholders' equity at "Consolidation reserve", if the cost of acquisition is lower than the value of the adjusted value of shareholders' equity.

The Consolidated Balance Sheet and Income Statement also reflect the elimination of all inter-company payables, receivables, costs and revenues, in addition to the elimination of inter-company profits.

The minority interest in shareholders' equity and in net income for the period is shown under the specific items in the Consolidated Balance Sheet and Income Statement.

ACCOUNTING POLICIES

Intangible assets

These are stated at purchase price or production cost, including incidental expenses. They are systematically amortized over their estimated useful lives. In the event of a permanent impairment in value, the asset is written down accordingly, regardless of the amortization already charged.

The incorporation and expansion costs of the companies and the related subsequent expenses, concessions, licenses and trademarks and similar rights are amortized on a straight-line basis over five years, while capitalized costs directly related to the stock market listing of the Parent Company, Acotel Group S.p.A., are amortized over two years.

Research and development costs are capitalized, if identifiable and measurable, after assessing their recoverability as a result of the economic benefits expected from the projects to which they refer, and which are expected to be completed. These costs are amortized in five years.

Industrial patents and intellectual property rights, related to software acquired or developed by the Company, are capitalized after assessing their recoverability as a result of the economic benefits expected from the projects to which they refer, and which are expected to be completed. These costs are amortized over three years, in view of the rapid technological deterioration to which they may be subject.

Leasehold improvements are amortized on the basis of the duration of the related rental contracts.

Goodwill arising from consolidation is amortized on a straight-line basis over a period of 10 years, taking into account future cash flows deriving from the investment.

Tangible assets

These are stated at purchase price or production cost, including incidental expenses.

They are systematically depreciated on a straight-line basis at a rate reflecting the estimated useful life of the relevant asset. Depreciation starts when the asset comes into operation and is reduced to half for the first year, in accordance with Italian law.

Ordinary maintenance and repair costs are expensed as incurred.

No monetary or economic revaluations or capitalization of interest expense was carried out.

The rates of depreciation applied for the different categories of asset are as follows:

Specific plant	10-20%
Technological platform	50%
Other plant and machinery	15-20%
Computers	20%
Other equipment	15-25%
Vehicles	25%
Furniture, fixtures and fittings	12%

In the event of a permanent impairment in value, the asset is written down accordingly, regardless of the depreciation already charged. If, in subsequent periods, the reasons for the write down are no longer valid, the original value is reinstated.

Long-term investments

Investments in associated companies are valued in accordance with the equity method.

Inventories

Inventories are stated at the lower of purchase or production cost using the LIFO method and the estimated realizable value based on market prices.

Accounts receivable

Accounts receivable are entered at nominal value, reduced by provisions for doubtful accounts in order to reflect their estimated realizable value.

Marketable securities

Such assets are stated at the lower of purchase cost and market value.

Cash at bank and on hand

Such items are stated at nominal value.

Accruals and deferrals

Accruals and deferrals include the portion of revenues and expenses covering two or more periods, allocated on an accruals basis.

Employee severance indemnities

Severance indemnities are stated in accordance with the provisions of the national collective labor contract for the category, with supplementary company agreements and in compliance with the regulations in force. It corresponds to the effective commitment to each employee at June 30, 2001, net of any advances paid.

Accounts payable

These are stated at nominal value.

Receivables and payables in foreign currency

Receivables and payables denominated in foreign currency are translated into lire at exchange rates on the date of the original transaction. They are adjusted on the basis of the exchange rates at the end of the accounting period. The exchange rate differences resulting from the adjustment are charged to the Income Statement.

Revenues

These are recognized in accordance with the prudence and matching principles.

Revenue relating to the services rendered to Network Operators and Corporate Customers is recognized on the basis of the services effectively performed during the period.

Revenue relating to the design, production and installation of electronic equipment is recognized at the moment of completion or at the time of delivery.

Memorandum accounts

These are stated at nominal value, including the existing commitments and risks at the end of the period.

NOTES TO THE BALANCE SHEET

ASSETS

FIXED ASSETS

Intangible assets

Details of intangible assets as of June 30, 2001 are as follows:

(in millions of lire)

	Historical cost	Allowance for amortization	Net value at 06-30-2000
Incorporation and expansion costs	9,195	(6,870)	2,325
Research, development and advertising costs	2,048	(1,580)	468
Industrial patents and intellectual property rights	743	(417)	326
Concessions, licences, trademarks and similar rights	122	(9)	113
Goodwill arising from consolidation	27,402	(765)	26,637
Intangibles in process and advances	9	-	9
Other	302	(231)	71
Total	39,821	(9,872)	29,949

The item "Incorporation and expansion costs" includes the incorporation cost of Acotel Group S.p.A., costs related to amendments to the subsidiaries' articles of association regarding the listing of the Parent Company on the Italian Stock Exchange's New Market, in addition to costs incurred for the listing completed on August 9, 2000.

These costs, of which Lit. 9,099 million were capitalized, are amortized by the Parent Company on a straight-line basis over two years.

The costs of research and development include the costs incurred by AEM for two different research projects, aimed at the development of a domestic automation system (called ARGO) and the creation of a remote automatic monitoring system. The Group has received subsidized loans in order to finance both projects.

Industrial patents and intellectual property rights consist of the specific software purchased from third parties and used by the Group in the provision of computerized services and for its internal operating system.

The item "Concessions, licenses, trademarks and similar rights" includes the license held by the subsidiary, Millenium Communication S.A., for the operation of fixed telephony services.

The item "Goodwill arising from consolidation" is composed of the differences arising between the price paid by the Parent Company for the purchase of the shareholdings in AEM S.p.A. and Jinny Software Ltd. and the corresponding values of the subsidiaries' shareholders' equity on the date of acquisition. The two sums, gross of amortization, amount to Lit. 896 million and Lit. 26,506 million, respectively.

The item “Other” essentially includes leasehold improvements, consisting of the costs incurred during recent years in order to renovate the building located in Rome, which is rented from third parties and used as the registered offices and operational headquarters of the Group’s Italian companies. The relevant lease expires in 2006.

Movements in intangible assets during the period were as follows:

(in millions of lire)

	Value at 12-31-2000	Purchases	Disposals	Amortization for the period	Value at 06-30-2001
Incorporation and expansion costs	4,606	5	-	(2,286)	2,325
Research, development and advertising costs	673	-	-	(205)	468
Industrial patents and intellectual property rights	253	188	-	(115)	326
Concessions, licences, trademarks and similar rights	107	8	-	(2)	113
Goodwill arising from consolidation	836	26,506	-	(705)	26,637
Intangibles in process and advances	9	-	-	-	9
Other	61	40	-	(30)	71
Total	6,545	26,747	-	(3,343)	29,949

Tangible assets

Details of tangible assets, net of the related allowances for depreciation, are as follows:

(in millions of Lire)

	Historical cost	Allowance for depreciation	Net value at 06-30-2001
Plant and machinery	4,108	(1,267)	2,841
Data communications equipment	1,229	(1,058)	171
Industrial and commercial equipment	1,610	(947)	663
Vehicles	224	(105)	119
Furniture, fixtures and fittings	342	(100)	242
Other	221	(218)	3
Work in progress	1,109	-	1,109
Total	8,843	(3,695)	5,148

During the year no tangible asset was the subject of disposal, revaluation or write-down.

The following table shows movements in tangible assets during the first half of 2001. The largest increase, amounting to Lit. 2,864 million, regards “plant and machinery” and more or less refers to the data communications equipment produced in Brazil by the subsidiary, Acotel Do Brasil (Lit. 1,132 million), and Jinny Software’s entry into the Group, which contributed plant with a value of Lit. 1,686 million.

(in millions of lire)

	Value at 12-31-2000	Increases	Decreases	Depreciation for the period	Value at 06-30-2001
Plant and machinery	334	2,864	-	(357)	2,841
Data communications equipment	172	69	-	(70)	171
Industrial and commercial equipment	667	93	-	(97)	663
Vehicles	141	-	-	(22)	119
Furniture, fixtures and fittings	129	127	-	(14)	242
Other	-	12	-	(9)	3
Work in progress	36	1,073	-	-	1,109
Total	1,479	4,238	-	(569)	5,148

CURRENT ASSETS

Inventories

Inventories, equal to Lit. 988 million as of June 30, 2001, relate to the subsidiaries, Acotel S.p.A. and AEM S.p.A., and are stated net of the allowance for stock write-downs of Lit. 537 million, provided to adjust them to their estimated market value. In detail:

(in millions of lire)

	Gross value	Write-downs	Net value at 06-30-2001
Raw materials, ancillary materials and consumables	664	(263)	401
Work-in-progress and semi-finished goods	544	(57)	487
Finished goods and goods for resale	317	(217)	100
Total	1,525	(537)	988

Accounts receivable

Trade

These come to Lit. 12,786 net of provisions for doubtful accounts of Lit. 149 million, applied in order to reflect their estimated realizable value.

They are all receivable within the 12 months.

Other

Other accounts receivable amount to Lit. 49,108 million and mainly consist of the investment of liquidity awaiting investment in the Group's development in repurchase agreements. These total Lit. 46,706 million and involve various banks, earning rates of return of between 4.5% and 5%.

The remaining amounts primarily refer to tax credits in the form of advance payments of income taxes for the year.

The part receivable beyond 12 months, amounting to Lit. 189 million, includes guarantee deposits given to third parties in relation to rental and utility contracts entered into by Group companies.

Marketable securities

This item, equal to Lit. 8,192 million, includes part of the Group's liquidity invested in short-term bonds issued by the Banca Nazionale del Lavoro, falling due in 2003, with a rate of return of 5.25%.

Cash at bank and on hand

This item includes bank deposits of Lit. 30,590 million and cash and notes on hand totaling Lit. 24 million.

The bank deposits represent the balances held at various institutes as of June 30, 2000.

ACCRUED INCOME AND PREPAID EXPENSES

The balance of Lit. 195 million as of June 31, 2001 refers to prepaid expenses regarding service contracts, insurance and other costs not accruing during the first half.

LIABILITIES AND SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY

Group interest

As of June 30, 2001 this item was as follows:

<i>(in millions of lire)</i>	Share capital	Share premium reserve	Legal reserve	Consolidation reserve	Reserve for exchange rate differences	Retained earnings	Net income for the period	TOTAL
Balance at December 31, 2000	2,083	106,368	-	1,760	(58)	-	1,662	111,815
Capital increase of June 1, 2001	2	346						348
Distribution of net income for 2000			118			1,544	(1,662)	0
Other changes					(10)	(26)		(36)
Net income for the period							1,015	1,015
Balance at June 30, 2001	2,085	106,714	118	1,760	(68)	1,518	1,015	113,142

As of June 30, 2001 the paid-up share capital of Acotel Group S.p.A. consisted of 4,170,000 ordinary shares with a nominal value of Lit. 500 each.

In application of the stock option plan approved by the General Meeting of Acotel Group S.p.A.'s shareholders on April 28, 2000, a total of 4,000 new ordinary shares with a nominal value of Lit. 500 each were issued on June 1, 2001. This led to increases in the share capital and the share premium reserve, as shown in the table.

Minority interest

As of June 30, 2001, this item amounts to Lit. 80 million and represents the share of shareholders' equity attributable to minority shareholders in subsidiaries and associated companies.

Reconciliation of the Parent Company's net income and shareholders' equity with consolidated net income and shareholders' equity

The reconciliation of the shareholders' equity of Acotel Group S.p.A. and the corresponding consolidated items is as follows:

(in millions of lire)

	<u>Shareholders' equity</u> positive/(negative)	<u>Result for the period</u> income / (loss)
Parent Company's shareholders' equity and result for the period	115,888	4,735
Effect of consolidation of Group companies	(1,882)	(1,478)
Valuation of associated companies according to the equity method	(706)	(706)
Consolidation reserve	1,760	-
Reserve for exchange rate differences	(68)	-
Amortization of goodwill arising from consolidation	(766)	(706)
Reinstatement of intercompany transfers of tangible assets	(116)	138
Elimination of intercompany profits	(968)	(968)
Group shareholders' equity and result for the period	113,142	1,015
Minority interest in shareholders' equity and result for the period	80	(2)
Consolidated shareholders' equity and result for the period	113,222	1,013

EMPLOYEE SEVERANCE INDEMNITIES

The total balance includes the amounts due as severance indemnities, net of advances already paid to employees.

ACCOUNTS PAYABLE

Banks

December 31, 2000 break down as follows

Short-term bank liabilities as of June 30, 2001 amount to Lit. 189 million, whilst bank liabilities due for repayment beyond 12 months total Lit. 466 million.

The short-term portion consists of Lit. 70 million relating to overdrafts against advances on invoices, and Lit. 119 million regarding a part of the loans due for repayment within 12 months granted by S.Paolo-IMI to the subsidiary, AEM S.p.A., to finance the research and development costs incurred by the company for two products aimed at creating remote surveillance and household automation systems. The long-term portion of bank liabilities refers entirely to the same loan and amounts to Lit. 466 million.

The above loan is subject to interest at 3.7%, is not secured by any form of guarantee and will be wound up at the end of 2005.

Other lenders

A similar loan granted by the Ministry of Industry, amounting to Lit. 583 million, is classified under this item. This amount increased by Lit. 117 million during the period after disbursement by the Ministry of the final tranche in February. This followed final approval of the project for which the loan was granted. The repayment schedule established by the contract starts in 2003 and will be completed by the end of 2012.

The portion falling due in over 5 years totals Lit. 344 million.

This loan is subject to interest at 3.625% and is not secured by any form of guarantee.

Advances

This item includes amounts invoiced to customers for services to be rendered.

Trade

This item, which amounts to Lit. 4,597 million, is entirely made up of trade payables due within 12 months.

Taxes due

Taxes due amount to Lit. 284 million and essentially refer to VAT.

Social security agencies

As of June 30, 2001, this item amounted to Lit. 323 million and included social security contributions to be paid.

Other

This item amounts to Lit. 22,091 million and is for the most part represented by the residual debt (9,000,000 US dollars equal to Lit. 20,150 million) due to the former owners in relation to the acquisition of Jinny Software Ltd.. The above sum was posted to this item given that, as of June 30, 2001, the issue of bonds to the said previous owners on the part of Acotel International S.A. had yet to be completed.

The item also includes Lit. 766 million payable to employees a wages and salaries, bonuses and outstanding holidays, in addition to Lit. 68 million due from the Luxembourg subsidiary, Millenium Communications, to the Italian Ministry of Communications for 2001, in relation to the license held to operate as a fixed telephony operator.

MEMORANDUM ACCOUNTS

As of June 30, 2001, the memorandum accounts include the guarantee relating to the lease contract, signed by the Parent Company, given to the owner of the building where the Group's Italian companies have their headquarters, amounting to Lit. 198 million. The accounts also include third-party assets used by the Company, totaling Lit. 71 million. Such assets consist of equipment granted free of charge to Acotel S.p.A. by various providers (Reuters, Sole 24 ore, etc.) for connection to their information networks.

NOTES TO THE INCOME STATEMENT

TOTAL REVENUES

Total revenues for the period amounted to Lit. 15,604 million.

Revenues from goods sold and services rendered break down as follows by segment:

(in millions of lire)

	January 1 – June 30, 2001	April 6 – June 30, 2000
Services to network operators	7,537	1,943
Services to corporate customers	841	306
Design and installation of data communications equipment	5,303	-
Design and production of electronic security equipment	832	294
Other	-	140
Total	14,519	2,683

Services to network operators consist of value-added Information Services provided to Italian and foreign operators of fixed and mobile telephony. The above revenues derive primarily from services provided to Telecom Italia Mobile.

Revenues from the design and installation of data communications equipment amounted to Lit. 5,303 million. This segment is the newest among the lines of business entered into by the Acotel Group and involves the commercial exploitation of the technological know-how generated internally by the Group, via development and management of the data communications platform used to provide information services.

This segment also includes the revenues earned by the newly acquired Jinny Software Ltd., an Irish company that operates in the creation and development of hardware and software for multimedia technological platforms (WAP Gateway, SMS-C, etc.). Jinny operates in the Irish and Middle Eastern markets and between April 9, 2001, the date of its acquisition by the Group, and June 30, 2001 earned revenues of Lit. 2,853 million.

The remaining revenues derived from contracts with "Timnet.com" (Brazil) and "Info2Cell" (United Arab Emirates), amounting to Lit. 1,165 million and Lit. 1,285 million, respectively.

The corporate segment continued to grow during the first six months of 2001 to stand at Lit. 841 million. This represents a 34.5% increase in terms of the monthly average for 2000 as a whole.

Revenues from the design and production of electronic security equipment remained substantially stable at Lit. 832 million.

As there were no important differences between the activities carried by the Group, margins by business segment are not given. In fact, a large part of the costs incurred concerned, without distinction, the services rendered, and therefore the revenues generated. In particular, labor costs, consultants' fees and technological resources were used for the joint development of all the Group's businesses.

The geographical distribution of revenues is as follows:

(in millions of lire)

	January 1 – June 30, 2001	April 6 – June 30, 2000
Italy	9,128	2,412
Europe	554	231
Latin America	1,253	40
Middle East	3,584	-
Total	14,519	2,683

Capitalized costs and expenses

This item amounts to Lit. 1,108 million and regards work in progress within the Group in order to upgrade data communications equipment.

OPERATING COSTS

Materials, service costs and lease expense

This item includes the following costs:

(in millions of lire)

	January 1 - June 30, 2001	April 6 - June 30, 2000
Raw and ancillary materials and consumables	2,526	473
Service costs	4,960	706
Lease expense	516	82
Total	8,002	1,261

The costs of raw and ancillary materials and consumables mainly relate to the purchase of the materials used in the construction of telecommunications and electronic equipment.

Service costs include, among other things, the cost of connection to the land and satellite transmission network used in the provision of services, totaling Lit. 1,087 million. The item also covers consultancy fees, amounting to Lit. 725 million, which include both professional services related to the implementation of services and equipment and management consultancy linked to the Company's operations. Directors' and Statutory Auditors' fees amounted to Lit. 415 million. The cost of services from content providers outside the Group, amounting to Lit. 855 million, decreased significantly with respect to the first half of 2000 (Lit. 1,112 million pro-forma) due to the substantial contribution received from the subsidiary, Acomedia, the Group's own content provider. The remaining amount regards general overhead incurred by Group companies.

Lease expense includes rental costs related to the rent of the building in which the Group's Italian companies operate.

Labor costs

Labor costs break down as follows:

(in millions of lire)

	January 1 - June 30, 2001	April 6 - June 30, 2000
Wages and salaries	2,846	302
Social security contributions	648	84
Employee severance indemnities	112	43
Other costs	52	-
Total	3,658	429

The following table shows the number of staff by category as of June 30, 2001 and the average for the period:

	June 30, 2001	average for 1 st half 2001
Managers	15	8
Junior managers	2	2
Clerks	87	61
Total	104	71

Amortization, depreciation and write-downs

Amortization, depreciation and write-downs relate to:

(in millions of lire)

	January 1 - June 30, 2001	April 6 - June 30, 2000
Amortization of intangible assets	3,343	5,111
Depreciation of tangible assets	569	609
Provisions for doubtful accounts	-	96
Total	3,912	5,816

The amortization of intangible assets mainly relate to the costs of modifying and expanding the Company's organizational structure and include the direct costs incurred for the Stock Exchange listing (amortization for the period amounted to Lit. 2,277 million). The item also relates to amortization of goodwill arising from consolidation following the acquisition of the holdings in the subsidiaries, Jinny Software and AEM. The relevant sums amount to Lit. 671 million and Lit. 45 million, respectively. The residual part relates to the research and development costs incurred by AEM for activities connected with household automation and remote surveillance.

Depreciation of tangible assets mainly relates to telecommunications equipment, as well as to capital assets.

There were no write-downs of current assets as the existing provisions were held to be adequate.

Other operating costs

This item includes taxes on non-deductible costs incurred by the subsidiary, Acotel Do Brasil, amounting to Lit. 57 million, and relating to costs incurred for services received from non-Brazilian parties. Given that such taxes are to be paid to the local Treasury, on the basis of criteria established by Brazilian tax law, such amount cannot be categorized under income taxes. The item also covers the fee of Lit. 68 million paid to the Italian Ministry of Communications for the period, in relation to the license held by the subsidiary, Millennium Communication S.A., to operate as a fixed telephony operator.

FINANCIAL INCOME AND EXPENSE

Net financial income amounts to Lit. 1,357 million, but reflects the impact of provisions made at the end of the period in order to adjust the value of balance sheet items originally denominated in currencies outside the euro area. The overall value of such provisions was Lit. 724 million, which was deducted from income deriving from the short-term investment of liquidity, totaling Lit. 2,198 million. Ordinary banking transactions generated net costs of Lit. 105 million, whilst interest expense on loans amounted to Lit. 12 million.

ADJUSTMENTS TO FINANCIAL ASSETS

This item refers to the write-down of the investment in Info2cell.com and includes the Group's share of the loss reported by the company for the period to June 30, 2001, totaling Lit. 519 million. The balance also reflects amortization of the goodwill purchased at the time of the acquisition, amounting to Lit. 187 million.

EXTRAORDINARY INCOME AND EXPENSE

Extraordinary items include income of Lit. 397 million and expense of Lit. 74 million. Income primarily relates to the reversal of provisions made in the financial statements for 2000.

SUBSEQUENT EVENTS

In August 2001, Jinny Software Ltd. signed a contract, worth 2.1 million US dollars, for the supply of a technological platform, to be technically named Short Message Service Center (SMS-C), to Kuwait.

The agreement confirms the wisdom of the strategy pursued by the Group in relation to its acquisition of 100% of the Irish company. The purchase allows the Group to offer an integrated package, providing the customer with both network systems and the value added services and related content.

OPERATING OUTLOOK

The Group's operations will continue along the strategic lines described at the beginning of this Report.

In Italy the Group will seek to consolidate its partnership with TIM, via the creation of new services, and to expand the range of products and services on offer to corporate customers. This will involve the sale of network equipment necessary for the in-house creation of value added services, the supply of the same services in the form of outsourcing, as an ASP (Application Service Provider), and the production of content.

The Group intends to look for further partnerships, similar to the one with ACEA, with businesses serving end users, providing it with privileged access to a large customer base.

The selection of highly skilled professionals over recent months will enable the Group to expand its overseas presence in high growth markets. Having possession of the intellectual property relating to the software used in the supply of value added services will allow the Group to set up free-standing operations in return for limited investment.

The "multicultural" nature of the development staff located in Rome, Rio de Janeiro, Dubai, Amman, Dublin and Beirut represents a strategic asset for the Group, which will thus be in a position to maintain the competitive advantage from which, also from a technological point of view, it has benefited so far.

PARENT COMPANY'S ACCOUNTS

ACOTEL GROUP S.P.A.

BALANCE SHEET

ASSETS

<i>(in millions of lire)</i>	June 30, 2001	December 31, 2000	June 30, 2001
Unpaid called-up share capital due from shareholders	-	-	-
Fixed assets:			
<i>Intangible assets:</i>			
Incorporation and expansion costs	2,296	4,574	290
Industrial patents and intellectual property rights	66	20	-
Other	1	-	-
Total	2,363	4,594	290
<i>Tangible assets:</i>			
Plant and machinery	470	597	600
Industrial and commercial equipment	180	106	-
Other	183	82	-
Tangibles in progress and advances	2,076	36	-
Total	2,909	821	600
<i>Long-term financial assets:</i>			
Investments:			
<i>subsidiaries</i>	28,078	28,078	28,078
Total	28,078	28,078	28,078
Total fixed assets	33,350	33,493	28,968
Current assets:			
<i>Accounts receivable:</i>			
Trade:			
<i>receivable within 12 months</i>	29	5,246	-
Subsidiaries:			
financial:			
<i>receivable within 12 months</i>	22,155	803	-
other:			
<i>receivable within 12 months</i>	11,525	5,965	205
Other:			
<i>receivable within 12 months</i>	39,674	83,666	185
<i>receivable beyond 12 months</i>	3	3	-
Total	73,386	95,683	390
<i>Marketable securities</i>			
other securities	4,028	4,006	-
Total	4,028	4,006	-
<i>Cash at bank and on hand</i>			
Bank and post office deposits	24,900	684	10,209
Cash and notes on hand	12	6	2
Total	24,912	690	10,211
Total current assets	102,326	100,379	10,601
Accrued income and prepaid expenses			
Other	1	138	-
TOTAL ASSETS	135,677	134,010	39,569

ACOTEL GROUP S.P.A.

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

<i>(in millions of lire)</i>	<u>June 30, 2001</u>	<u>December 31, 2000</u>	<u>June 30, 2000</u>
Shareholders' equity:			
Share capital	2,085	2,083	1,667
Share premium reserve	106,714	106,368	19,833
Revaluation reserve	-	-	-
Legal reserve	118	-	-
Reserve for treasury stock	-	-	-
Statutory reserves	-	-	-
Other reserves	-	-	-
Retained earnings (accumulated losses)	2,236	-	-
Net income (loss) for the period (a)	4,735	2,354	(258)
Total	115,888	110,805	21,242
Allowances for risks and charges:			
Other	-	101	-
Total	-	101	-
Employee severance indemnities	83	25	20
Accounts payable			
Advances			
<i>payable within 12 months</i>	847	2,117	-
Suppliers			
<i>payable within 12 months</i>	1,141	2,013	498
<i>payable beyond 12 months</i>			
Subsidiaries			
<i>payable within 12 months</i>	17,030	17,106	17,764
Taxes			
<i>payable within 12 months</i>	121	1,604	-
Social security agencies			
<i>payable within 12 months</i>	195	90	-
Other			
<i>payable within 12 months</i>	372	149	45
Total	19,706	23,079	18,307
Accrued expenses and deferred income	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	135,677	134,010	39,569

(a) the results for the six months to June 30, 2001 and 2000 are pre-tax

ACOTEL GROUP S.P.A.
MEMORANDUM ACCOUNTS

(in millions of lire)

	June 30, 2001	December 31, 2000	June 30, 2000
General guarantees granted:			
Guarantees granted in favour of others	198	198	-
Commitments:			
To purchase equity investments	-	8,341	-
TOTAL MEMORANDUM ACCOUNTS	198	8.539	-

ACOTEL GROUP S.P.A.

INCOME STATEMENT

<i>(in millions of lire)</i>	<u>Jan. 1 - June 30, 2001</u>	<u>Apr. 6 - Dec. 31, 2000 (a)</u>	<u>Apr. 6 - June 30, 2000 (a)</u>
Total revenues:			
Revenues from the sale of goods and services	7,169	9,146	-
Other revenues and income	15	266	-
Total	7,184	9,412	-
Operating costs:			
Raw and ancillary materials and consumables	796	2	-
Service costs	1,275	946	184
Lease expense	397	134	-
Labor costs:	1,373	786	48
. wages and salaries	937	542	21
. social security contributions	359	209	7
. employee severance indemnities	58	35	20
. other costs	19	-	-
Amortization, depreciation and write-downs:	2,529	4,842	32
. amortization of intangible fixed assets	2,293	4,566	32
. depreciation of tangible fixed assets	236	220	-
. provisions for doubtful accounts	-	56	-
Other operating costs	3	11	1
Total	6,373	6,721	265
Operating income	811	2,691	(265)
Financial income and expense:			
Income	3,880	1,510	7
Expense	(42)	(224)	-
Net financial income (expense)	3,838	1,286	7
Adjustments to financial assets	-	-	-
Extraordinary income and expense:			
Income	131	-	-
Expense	(45)	-	-
Extraordinary income (expense), net	86	-	-
Income taxes for the year	-	(1,623)	-
Net income (loss) for the period (b)	4,735	2,354	(258)

(a) Acotel Group S.p.A. was incorporated on April 6, 2000, and for this reason the comparative data, derived from the annual accounts as of December 31, 2000 and the six-month accounts as of June 30, 2000, refer to that date.

(b) the results for the six months to June 30, 2001 and 2000 are pre-tax

ACOTEL GROUP S.P.A.

BALANCE SHEET

ASSETS

<i>(in thousands of euros)</i>	<u>June 30, 2001</u>	<u>December 31, 2000</u>	<u>June 30, 2000</u>
Unpaid called-up share capital due from shareholders	-	-	-
Fixed assets:			
<i>Intangible assets:</i>			
Incorporation and expansion costs	1,185	2,363	150
Industrial patents and intellectual property rights	34	10	-
Other	1	-	-
Total	1,220	2,373	150
<i>Tangible assets:</i>			
Plant and machinery	243	308	310
Industrial and commercial equipment	93	55	-
Other	94	42	-
Tangibles in progress and advances	1,072	19	-
Total	1,502	424	310
<i>Long-term financial assets:</i>			
Investments:			
<i>subsidiaries</i>	14,501	14,501	14,501
Total	14,501	14,501	14,501
Total fixed assets	17,223	17,298	14,961
Current assets:			
<i>Accounts receivable:</i>			
Trade:			
<i>receivable within 12 months</i>	15	2,709	-
Subsidiaries:			
financial:			
<i>receivable within 12 months</i>	11,442	415	-
other:			
<i>receivable within 12 months</i>	5,952	3,081	106
Other:			
<i>receivable within 12 months</i>	20,490	43,210	96
<i>receivable beyond 12 months</i>	2	1	-
Total	37,901	49,416	201
<i>Marketable securities</i>			
other securities	2,080	2,069	-
Total	2,080	2,069	-
<i>Cash at bank and on hand</i>			
Bank and post office deposits	12,860	353	5,273
Cash and notes on hand	6	3	1
Total	12,866	356	5,274
Total current assets	52,847	51,841	5,475
Accrued income and prepaid expenses			
Other	1	71	-
TOTAL ASSETS	70,071	69,210	20,436

ACOTEL GROUP S.P.A.

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

<i>(in thousands of euros)</i>	<u>June 30, 2001</u>	<u>December 31, 2000</u>	<u>June 30, 2000</u>
Shareholders' equity:			
Share capital	1,077	1,076	861
Share premium reserve	55,113	54,934	10,243
Revaluation reserve		-	-
Legal reserve	61	-	-
Reserve for treasury stock		-	-
Statutory reserves		-	-
Other reserves		-	-
Retained earnings (accumulated losses)	1,155	-	-
Net income (loss) for the period (a)	2,445	1,216	(133)
Total	59,851	57,226	10,971
Allowances for risks and charges:			
Other	-	52	-
Total	-	52	-
Employee severance indemnities	43	13	10
Accounts payable			
Advances			
<i>payable within 12 months</i>	438	1,093	-
Suppliers			
<i>payable within 12 months</i>	589	1,039	258
<i>payable beyond 12 months</i>			
Subsidiaries			
<i>payable within 12 months</i>	8,795	8,835	9,174
Taxes			
<i>payable within 12 months</i>	62	828	-
Social security agencies			
<i>payable within 12 months</i>	101	47	-
Other			
<i>payable within 12 months</i>	192	77	23
Total	10,177	11,919	9,455
Accrued expenses and deferred income	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	70,071	69,210	20,436

(a) the results for the six months to June 30, 2001 and 2000 are pre-tax

ACOTEL GROUP S.P.A.
MEMORANDUM ACCOUNTS

(in thousands of euros)

	<u>June 30, 2001</u>	<u>December 31, 2000</u>	<u>June 30, 2000</u>
General guarantees granted:			
Guarantees granted in favour of others	102	102	-
Commitments:			
To purchase equity investments	-	4,308	-
<u>TOTAL MEMORANDUM ACCOUNTS</u>	<u>102</u>	<u>4.410</u>	<u>-</u>

ACOTEL GROUP S.P.A.

INCOME STATEMENT

(in thousands of euros)

	Jan. 1 - June 30, 2001	Apr. 6 - Dec. 31, 2000 (a)	Apr. 6 - June 30, 2000 (a)
Total revenues:			
Revenues from the sale of goods and services	3,702	4,724	-
Other revenues and income	8	137	-
Total	3,710	4,861	-
Operating costs:			
Raw and ancillary materials and consumables	411	1	-
Service costs	658	488	94
Lease expense	205	69	-
Labor costs:	709	406	25
. wages and salaries	484	280	11
. social security contributions	185	108	4
. employee severance indemnities	30	18	10
. other costs	10	-	-
Amortization, depreciation and write-downs:	1,306	2,501	17
. amortization of intangible fixed assets	1,184	2,358	17
. depreciation of tangible fixed assets	122	114	-
. provisions for doubtful accounts	-	29	-
Other operating costs	2	6	1
Total	3,291	3,471	137
Operating income	419	1,390	(137)
Financial income and expense:			
Income	2,004	780	4
Expense	(22)	(116)	-
Net financial income (expense)	1,982	664	4
Adjustments to financial assets	-	-	-
Extraordinary income and expense:			
Income	68	-	-
Expense	(24)	-	-
Extraordinary income (expense), net	44	-	-
Income taxes for the year	-	(838)	-
Net income (loss) for the period (b)	2,445	1,216	(133)

(a) Acotel Group S.p.A. was incorporated on April 6, 2000, and for this reason the comparative data, derived from the annual accounts as of December 31, 2000 and the six-month accounts as of June 30, 2000, refer to that date.

(b) the results for the six months to June 30, 2001 and 2000 are pre-tax