

**REPORT ON GROUP OPERATIONS
FOR THE THREE MONTHS
FROM JANUARY 1 TO MARCH 31, 2002**



**CONSOLIDATED QUARTERLY ACCOUNTS
FOR THE THREE MONTHS FROM JANUARY 1 TO MARCH 31, 2002**

CONSOLIDATED INCOME STATEMENT FOR THE PERIOD JANUARY 1 – MARCH 31, 2002

<i>(thousands of euros)</i>	Jan. 1 - Mar. 31 2002	Jan. 1 - Mar. 31 2001
Total revenues:		
- revenues from the sale of goods and services	3,489	3,284
- change in work in progress, semi-finished goods and finished goods	-	(17)
- other revenues and income	23	8
Total	3,512	3,275
Operating costs:		
- raw and ancillary materials and consumables	114	419
- service costs	995	937
- lease expense	207	110
- labor costs	1,482	580
- amortization, depreciation and write-downs	618	775
- change in raw and ancillary materials and consumables	(6)	(17)
- other expenses	32	35
Total	3,442	2,839
Operating income	70	436
Financial income (expense), net	322	645
Adjustments to financial assets	(326)	(77)
Extraordinary income (expense), net	17	34
Income (loss) for the period	83	1,038
Minority interest	1	-
Group interest in income (loss) for the period	82	1,038

ANALYSIS OF CONSOLIDATED NET DEBT AS OF 03-31-2002

(thousands of euros)

	03.31.2002	12.31.2001
Short-term investments	5,871	4,200
Cash and cash equivalents	42,466	44,309
Short-term bank debt and current portions of long-term bank debt	(86)	(99)
Cash and cash equivalents (short-term indebtedness), net (A)	48,251	48,410
Bonds maturing beyond 12 months	(10,241)	(10,212)
Medium- to long-term portion of debt and other loans	(503)	(503)
Medium- to long-term indebtedness (B)	(10,744)	(10,715)
Net liquidity (A)+(B)	37,507	37,695

GROSS INVESTMENTS

(thousands of euros)

	1Q2002	1Q2001
Intangible assets	33	64
Tangible assets	215	693
Long-term financial assets	-	4,311
Total	248	5,068

NOTES TO THE CONSOLIDATED QUARTERLY ACCOUNTS FOR THE THREE MONTHS FROM JANUARY 1 TO MARCH 31, 2002

Basis of presentation

The consolidated accounts as of March 31, 2002 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, integrated by the regulations contained in the “Regulations for the New Market organized and managed by Borsa Italiana S.p.A.”.

The accounts as of March 31, 2002 used as the basis for the consolidated accounts 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 accounts 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 Company has availed itself of the right granted by the above CONSOB resolution, reporting the result for the period before income taxes.

As of March 31, 2002, in addition to *Acotel Group S.p.A.*, the Parent Company, the following directly or indirectly controlled subsidiaries of the Acotel Group were consolidated:

Company	Date of acquisition (1)	Group's interest (%)	Registered office	Share capital
Acotel S.p.A.	April 28, 2000	99.9% (2)	Rome	EURO 13,000,000
AEM Advanced Electronic Microsystems S.p.A.	April 28, 2000	99%	Rome	EURO 858,000
Acomedia S.r.l.	April 28, 2000	100%	Rome	EURO 15,600
Acotel Participations S.A..	April 28, 2000	100%	Luxembourg	EURO 1,200,000
Acotel Chile S.A.	April 28, 2000	100% (3)	Chile	USD 50,000
Acotel Espana S.L.	April 28, 2000	100% (3)	Spain	EURO 3,000
Acotel Greece S.A.	April 28, 2000	100% (3)	Greece	EURO 61,855
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	EURO 38,850
Millenium Communications S.A.	April 28, 2000	100% (4)	Luxembourg	EURO 199,800
Publimedia S.A.	April 28, 2000	100%	Luxembourg	EURO 38,850

(1) All the subsidiaries existed prior to the date of acquisition, with exception of Acotel Do Brasil which was incorporated on August 8, 2000.

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

(2) Owned via Acotel Participations S.A.

(3) Owned via Millenium Luxembourg S.A.

(4) Owned via Jinny Software Ltd.

The analysis of net debt as of March 31, 2002 is compared with the corresponding data as of December 31, 2001.

The table showing gross investments for the period January 1 – March 31, 2002 is compared with the corresponding data for the same period of 2001.

Consolidation principles

Minority interest in income before taxes

The minority interest 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 euro applying average exchange rates for the period as published by the Italian Exchange Office.

Other information

The accounting policies applied have not been modified with respect to the previous report.

The data shown is not based on estimates.

This quarterly report is unaudited.

NOTES TO THE INCOME STATEMENT

Revenues from sales and services

Revenues for the first quarter of 2002 amounted to 3,489 thousand euros , up 205 thousand euros on the same period of the previous year.

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

<i>(thousands of euros)</i>	1Q2002		1Q2001	
	%		%	
VAS SERVICES TO NETWORK OPERATORS	2,501	71.7%	1,958	59.6%
CORPORATE VAS SERVICES	278	8.0%	181	5.5%
DESIGN OF ITC EQUIPMENT	528	15.1%	997	30.4%
DEVELOPMENT OF SOFTWARE APPLICATIONS	111	3.2%	-	-
SECURITY SYSTEMS	71	2.0%	148	4.5%
	3,489	100%	3,284	100%

Value added services provided to Network Operators generated revenues of 2,501 thousand euros during the first quarter, registering growth of 28% with respect to the same period of 2001 . Such services primarily refer to value added Information Services supplied to fixed-line and mobile telephone operators in Italy and overseas, via the Group's multimedia technology platform.

The *Telecom Italia Group* remains the Acotel Group's largest customer, buying a range of services for both fixed-line and mobile telephony.

The supply of value added services to the Corporate market, which is similar in nature to the above sector, but differentiated by the wider variety of customer served, generated revenues of 278 thousand euros , up 54% on the same period of 2001.

The Group's major customers in this sector are companies with large customer bases, to which information or interactive services are supplied via fixed-line or mobile telephone .

The services supplied include mobile banking (e.g. *Diners*, *Unicredit*, *CSE* and *Numera*), general or specific information (eg. *Borsa Italiana*, *Autostrade*, *Turin University*) and interactive (e.g. mobile ticketing and tele-check in for *Alitalia*). These services are tailor-made to meet the specific requirements of each corporate customer.

Revenues from the design and development of ITC equipment totaled 528 thousand euros. Such revenues are generated by the activities of the subsidiary, *Jinny Software*.

Revenues from the supply of security systems amounted to 71 thousand euros, compared with the 148 thousand of the first quarter of 2001. The Group's plans to re-launch this line of business via a reorganization of the subsidiary, *AEM S.p.A.*, and the participation in joint ventures with other companies in the sector.

Revenues from the development of tailor-made software applications amounted to 111 thousand euros during the period.

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

<i>(thousands of euros)</i>	1Q2002		1Q2001	
		%		%
ITALY	2,961	84.9%	2,253	68.6%
EUROPE	150	4.3%	-	-
MIDDLE-EAST	373	10.7%	656	20.0%
LATIN AMERICA	5	0.1%	375	11.4%
	3,489	100%	3,284	100%

Other revenues and income

This item amounted to 23 thousand euros and includes the recovery of administrative costs from third parties.

Operating costs

Purchases of goods and services and lease expense

This item includes the following:

<i>(thousands of euros)</i>	1Q2002	1Q2001
Raw and ancillary materials and consumables	114	419
Service costs	995	937
Lease expense	207	110
	1,316	1,466

The *cost of raw and ancillary materials, consumables and goods for resale* refers primarily to materials used in the production of ITC equipment. The sharp drop is closely linked to the reduction in revenues from the production of such equipment.

Service costs of 995 thousand euros include, among other things, the cost of connection to terrestrial and satellite transmission networks, linked to the supply of value added services, totaling 172 thousand euros. This item also consists of the cost of the information acquired from content providers, amounting to 75 thousand euros. Such costs are incurred in order to acquire the information necessary to the Group's role as a service provider.

It should be noted that this latter cost item has undergone a progressive decline over the past year, as a result of the growing contribution of *Acomedia*, the Group's own content provider. The same item reported revenues of 179 thousand euros for the same period of 2001.

Other substantial items regard: consultants' fees of 174 thousand euros, which include professional services of an administrative and technical nature linked to the introduction of new services and the installation of equipment, and business consultancy linked to the development of new areas of business and the Group's entry into new markets; and the cost of advertising and promotions, totaling 97 thousand euros, linked to marketing initiatives aimed at increasing both sales and the Group's visibility in the markets in which it operates. Service costs also include the remuneration paid to directors and statutory auditors, totaling 117 thousand euros.

The remaining portion relates to administrative and general operating costs incurred by the Group.

Service costs were slightly up on the same period of the previous year. However, bearing in mind the fact that the subsidiary, *Jinny Software*, which became part of the Group in April 2001, accounts for 214 thousand euros, on a like-for-like basis of consolidation this item would have reported a significant reduction.

Lease expense of 207 thousand euros includes rental costs related to the buildings in which Group companies operate. The increase with respect to 2001 is due to the consolidation of the subsidiary, *Jinny Software*.

Labor costs

Labor costs break down as follows:

<i>(thousands of euros)</i>	<u>1Q2002</u>	<u>1Q2001</u>
Wages and salaries	1,140	410
Social security contributions	259	140
Employee severance indemnities	39	19
Other costs	44	11
	<u>1,482</u>	<u>580</u>

The increase in the Group's headcount, resulting from both organic growth and the acquisition of *Jinny Software*, is behind the significant increase in such costs.

The following table provides a breakdown of the average number of employees by category for the third quarters of 2001 and 2002:

	Average 1Q2002	Average 1Q2001
Senior managers	14	6
Middle managers	7	1
Staff	94	39
Total	115	46

The following table shows the geographical distribution of the Group's employees:

	03-31-2002	03-31-2001
Italy	62	49
Ireland	21	-
Lebanon	30	-
Brazil	3	1
United Arab Emirates	2	-
Total	118	50

Employees located in the United Arab Emirates consist of commercial staff assigned to the branch office opened by *Jinny Software* in Dubai.

Amortization, depreciation and write-downs

Details of these items are provided in the following table :

<i>(thousands of euros)</i>	<u>1Q2002</u>	<u>1Q2001</u>
Amortization of intangible assets	408	688
Depreciation of tangible assets	210	87
	<u>618</u>	<u>775</u>

The amortization of intangible assets mainly relates to goodwill arising from consolidation of the subsidiaries, *Jinny Software* and *AEM*. The relevant charges amounted to 336 thousand euros and 12 thousand euros, respectively.

Depreciation of tangible assets mainly relates to telecommunications equipment, as well as to infrastructure used by Group companies.

Other expenses

This item amounted to 32 thousand euros and includes other general operating expenses incurred by the Group.

Financial income and expense

Net financial income amounted to 322 thousand euros for the third quarter.

The result is due to investment of the Group's liquidity, which generated interest income of 281 thousand euros, and net gains on foreign exchange transactions amounting to 88 thousand euros.

Financial expense amounted to 52 thousand euros and included, in addition to bank interest, charges and commissions, 38 thousand euros as coupon interest on the bonds issued by *Acotel Participations* on August 2, 2001, in connection with the undertakings given at the time of the acquisition of *Jinny Software*.

Adjustments to financial assets

Such adjustments amount to 326 thousand euros and represent the write-down of the investments in the associated companies, *Info2cell* (Dubai) and *E-Seed* (Rome), carried out in order to reflect the reduction in the value of the Group's interest in the company's equity as of March 31, 2002. The write-downs applied amounted to 146 thousand euros and 180 thousand euros, respectively.

Extraordinary income and expense

Net extraordinary items amounted to 17 thousand euros and primarily include non-recurring revenues and liabilities.

FINANCIAL REVIEW

Operating performance

The first quarter of 2002 saw the launch of the Group's www.acoweb.ie portal in Ireland, the re-branding campaign carried out by *Vodafone* in Ireland, the development of new services for *Telecom Italia Mobile* and participation in the bidding process for the privatization of sports betting.

In January, *Jinny Software* launched the www.acoweb.ie portal aimed at offering multimedia messaging services to both consumers and corporate customers.

By accessing the portal customers can select the services they want for use via SMS, WAP or telephone.

The portal is already able to offer consumers value added information services (including lottery results, sports news, mobile banking ticketing and financial information) and the chance to download icons and dial tones for mobile phones. It will also be one of the first portals in Ireland to offer Premium SMS, namely the possibility to receive services and content in general paying for them as part of the bill sent by the operator. The services are to be rapidly extended to corporate customers, who will have access to personalized applications based not only on value added SMS, providing high standards of quality and ease of use, but also EMS (Enhanced Picture Messaging) and MMS (Multimedia Messaging Services).

The fact that the www.acoweb.ie portal is now fully operational, as well as the company's long-standing relationship with Ireland's leading mobile operator, allowed *Jinny* to win the contract to manage, via its SMS channel, the information campaign linked to the customer's change of name from *Eircell* to *Vodafone Ireland*.

Acotel worked alongside *Telecom Italia Mobile* on the commercial launch of the customer's "Wap Push" service, which was introduced in February. The service is extremely easy to use: the customer receives an SMS providing a summary of the news item and refers to the possibility of receiving further content. If the customer wishes to find out more all she has to do is press a key on the her handset and, via a hypertext link, she will be given direct access to a WAP page showing greater details and commentary.

In order to make use of the service, all customers need is a handset enabled for m-services, whilst it is not necessary to carry out any form of configuration of the mobile phone.

Acotel offers *TIM*'s WAP customers news in push mode with continuous real-time updates. The news is divided into categories covering "General", "Politics", "The Economy" and "Sport", stock quotes, horoscopes and soccer. The latter service gives users real-time access to match results and details of important events.

On March 25, 2002, *Sisal S.p.A.*, *Acotel Group S.p.A.*, *Banca di Roma S.p.A.* and *Telemacon S.p.A.* (*Confcommercio*), operating as a consortium, presented the Italian Olympic Committee with a bid for the purchase of 49% of the share capital of *Cinquecerchi S.p.A.*, a new company that has been granted a 15-year concession to manage *Totocalcio*, *Totogol*, *Totosei* and *Totobingol*. The bid contained a detailed business plan for the re-launch of the above betting services and the price offered for the stake in the new company. Acotel's role will not only involve the collection of bets through innovative channels (mobile telephone, interactive TV, etc.) but also the task of obtaining the necessary authorizations to make it possible to bet on events as they take place so that users can act on impulse.

Results of operations

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

<i>(thousands of euros)</i>	<u>1Q2002</u>	<u>1Q2001</u>
Total revenues	3,512	3,275
Materials and service costs	1,342	1,484
Gross margin	2,170	1,791
Labor costs	1,482	580
EBITDA	688	1,211
Depreciation	210	688
Amortization	408	87
EBIT	70	436
Net financial (expense) income	322	645
Income (loss) from ordinary activities	392	1,081
Adjustments to financial assets	(326)	(77)
Extraordinary income (loss), net	17	34
Income (loss) for the period	83	1,038
Minority interest	1	-
Group interest in income (loss) for the period	82	1,038

A comparison of the Group's results for the first quarter of 2002 with those for the same period of the previous year give rise to a number of considerations:

The Group's revenues continue to rise, with turnover up 7.2% from the 3,284 thousand euros of the first quarter of 2001 to 3,489 thousand euros.

An analysis of the various components of the above result reveals how the increase in revenues from the provision of value added services to Network Operators and Corporate customers has kept pace with the growth reported in previous quarters (28% and 53%, respectively).

Revenues from the design of ITC equipment and security systems were, on the other hand, down on the same period of 2001.

<i>(thousands of euros)</i>	<u>1Q2002</u>		<u>1Q2001</u>	
		%		%
VAS SERVICES TO NETWORK OPERATORS	2,501	71.7%	1,958	59.6%
CORPORATE VAS SERVICES	278	8.0%	181	5.5%
DESIGN OF ITC EQUIPMENT	528	15.1%	997	30.4%
DEVELOPMENT OF SOFTWARE APPLICATIONS	111	3.2%	-	-
SECURITY SYSTEMS	71	2.0%	148	4.5%
	<u>3,489</u>	<u>100%</u>	<u>3,284</u>	<u>100%</u>

The decline in revenues from the design of ITC equipment is in part due to the different timing of completion of the contact work in progress at the end of the year. If the first quarter of 2001 benefited from completion of a number of large contracts agreed at the end of 2000 - in the Middle-East (*Info2cell*) and Brazil (*Timnet*) -, existing contracts at the end of 2001 were, in contrast, not completed during the first three months of 2002. Such contracts include the existing agreement with *Voinoi S.p.A.* (Acea Group), by which the Group, via its subsidiary, *Jinny Software*, is developing certain equipment for use in the provision of customer care services. In order to inject new life into this area of business, the Group is planning a strategic reorganization of the subsidiary, *AEM*. This will involve an expansion of the organizational structure and agreements with other operators in the sector.

In conjunction with Telecom Italia Mobile, Acotel has developed Enhanced Messaging Services, which represent the next step on from SMS. The new service allows the owners of handsets using the new standard to exchange not only text but also graphic devices and appropriately modified melodies for use as ring tones.

TIM took advantage of Acotel's technological expertise to be the first operator in the world to launch a "Wap Push" service in February. This gives *TIM*'s WAP customers access to news in push mode, with continuous real-time updates. News is divided into categories covering "General", "Politics", "The Economy" and "Sport", stock quotes, soccer results and news of other sports events.

Further new services linked to the 2002 Soccer World Cup to be held in June of this year are also being developed. This will probably lead to an increase in demand for real-time mobile information services.

The above is confirmation of the importance the Group ascribes to this area of its business. Despite the expansion and diversification of the Group's range of services during 2001, this area remains a measure of its ability to continue to be technologically independent, of the quality of its innovations, of its success in enriching its content and extending the information categories available, as well as of the speed and promptness with which services are supplied.

Direct operating costs amounted to 2,824 thousand euros. The most significant cost item is represented by labor costs, amounting to 1,482 thousand euros, which have almost tripled with respect to the same period of 2001. This was due to growth in the headcount from 50 staff as of March 31, 2001 to the 118 of March 31, 2002, partly as a result of the acquisitions carried out (primarily *Jinny Software*, completed in April 2001). Service costs were slightly up at 995 thousand euros, and include various components involved in the production of the services offered. Bearing in mind that without the contribution of the subsidiary, *Jinny Software*, which accounts for 214 thousand euros, this item would have reported a significant reduction, thereby providing proof of the improved internal efficiency achieved by the Group.

EBITDA for the third quarter amounted to 688 thousand euros, representing a margin of 20%. EBIT, after charges for depreciation of 210 thousand euros and for amortization of 408 thousand euros, primarily referring to goodwill arising from consolidation of a number of the Group's equity investments, amounted to 70 thousand euros.

Net financial income amounted to 322 thousand euros for the third quarter, primarily as a result of the short-term investment of liquidity. Adjustments to financial assets, totaling 326 thousand euros, represent the write-down of the investments in the associated companies, *Info2cell* (Dubai) and *E-Seed* (Rome), in order to reflect their valuation according to the equity method.

As a result of the above, income for the period, after the minority interest, amounts to 82 thousand euros.

Analysis of net debt

Net cash and cash equivalents as of March 31, 2002 amount to 37,507 thousand euros, substantially unchanged with respect to December 31, 2001.

The bonds referred to in the above table regard the debt securities issued by *Acotel Participations S.A.* in connection with the undertakings given at the time of the acquisition of *Jinny Software* and subscribed by the previous owners of the Irish subsidiary.

The principal characteristics of the bonds are as follows:

- date of issue: August 2, 2001;
- par value: USD 9,000,000;
- coupon interest: 1.5% per year;
- date of maturity: April 9, 2003;
- redemption: lump sum on maturity.

Gross investments

During the first quarter of 2002, the Group's investments have primarily related to ordinary activities.

The most significant increase, amounting to 67 thousand euros, regarded updating of the Group's Italian ITC platform, used to provide its value added services.

OPERATING OUTLOOK

Over the following quarters the Group's operations will involve :

- the launch of new valued added products for Network Operators, linked to the coming Soccer World Cup to be held in Japan and Korea which, partly due to the time difference, will lead to a significant increase in demand for applications that allow mobile users to access real-time information;
- in addition to completing the ITC equipment design contracts already underway, including the commission from *Voinoi*, the conclusion of negotiations regarding a number of new agreements;
- the entry into partnerships with operators in the security systems sector with a view to carrying out joint projects;
- expansion of the Group's geographical presence either via independent initiatives or through acquisitions;
- further diversification of the Group's core business into related and synergic activities.