

**REPORT ON GROUP OPERATIONS
FOR THE THREE MONTHS FROM JULY 1 TO SEPTEMBER 30, 2004**



CONSOLIDATED QUARTERLY ACCOUNTS

CONSOLIDATED INCOME STATEMENT

for the period from July 1 to September 30, 2004

(thousands of euros)

	2004		2003	
	July 1-Sept. 30	Jan. 1 -Sept. 30	July 1 - Sept. 30	Jan. 1 -Sept. 30
Total revenues:				
- revenues from the sale of goods and services	5,185	14,096	4,747	13,470
- changes in the inventories of work in progress, semi-finished and finished goods	(3)	24	10	299
- capitalized costs and expenses	-	-	3	3
- other revenues and income	(14)	1,462	(3)	-
Total	5,168	15,582	4,757	13,772
Operating costs:				
- raw and ancillary materials and consumables	436	581	148	433
- service costs	2,205	6,097	1,953	5,667
- lease expense	313	1,003	341	978
- labor costs:	2,068	6,425	1,568	5,144
<i>wages and salaries</i>	1,533	4,754	1,115	3,882
<i>social security contributions</i>	345	1,027	315	856
<i>employee severance indemnities</i>	72	261	43	153
<i>other costs</i>	118	383	95	253
- amortization, depreciation and write-downs:	729	2,386	835	2,404
<i>amortization of intangible fixed assets</i>	548	1,620	563	1,619
<i>depreciation of tangible fixed assets</i>	179	712	272	774
<i>provisions for doubtful accounts</i>	2	54	11	11
- changes in raw and ancillary materials, consumables and, goods for resale	5	19		243
- other operating costs	87	171	50	872
Total	5,843	16,682	4,895	15,741
Operating income	(675)	(1,100)	(138)	(1,969)
Financial income and expense:				
- income	113	453	63	402
- expense	(14)	(92)	(20)	(255)
Net financial income (expense)	99	361	43	147
Adjustments to financial assets:				
- write-downs				
<i>of equity investments</i>	-	(10)	-	-
<i>of long-term financial assets other than equity investm</i>	-	(73)	-	-
Adjustments to financial assets	-	(83)	-	-
Extraordinary income and expense:				
- income	6	59	38	188
- expense	(42)	(86)	(47)	(396)
Extraordinary income (expense), net	(36)	(27)	(9)	(208)
Income (loss) for the period	(612)	(849)	(104)	(2,030)
Minority interest	-	-	-	(2)
Group interest in income (loss) for the period	(612)	(849)	(104)	(2,028)

ANALYSIS OF NET DEBT

(thousands of euros)

	Sept. 30, 2004	June 30, 2004	Dec. 31, 2003	Sept. 30, 2003
Short-term investments	28,946	29,712	16,466	28,811
Cash and cash equivalents	4,296	4,455	17,590	4,536
Short-term bank debt and current portions of long-term bank debt	(287)	(237)	(74)	(189)
Net cash and cash equivalents (A)	32,955	33,930	33,982	33,158
Bonds issued falling due beyond 12 months	-	-	(158)	(184)
Medium- to long-term debt	(284)	(353)	(353)	(412)
Medium- to long-term indebtedness (B)	(284)	(353)	(511)	(596)
Net liquidity/(debt) (A)+(B)	32,671	33,577	33,471	32,562

GROSS INVESTMENT IN FIXED ASSETS

(thousands of euros)

	Q3 2004	Jan. 1-Sept. 30, 2004	Q3 2003	Jan. 1-Sept. 30, 2003
Intangibles	32	254	161	243
Tangibles	119	395	56	149
Financial	677	695	(113)	454
Total	828	1,344	104	846

**NOTES
TO THE CONSOLIDATED
QUARTERLY ACCOUNTS**

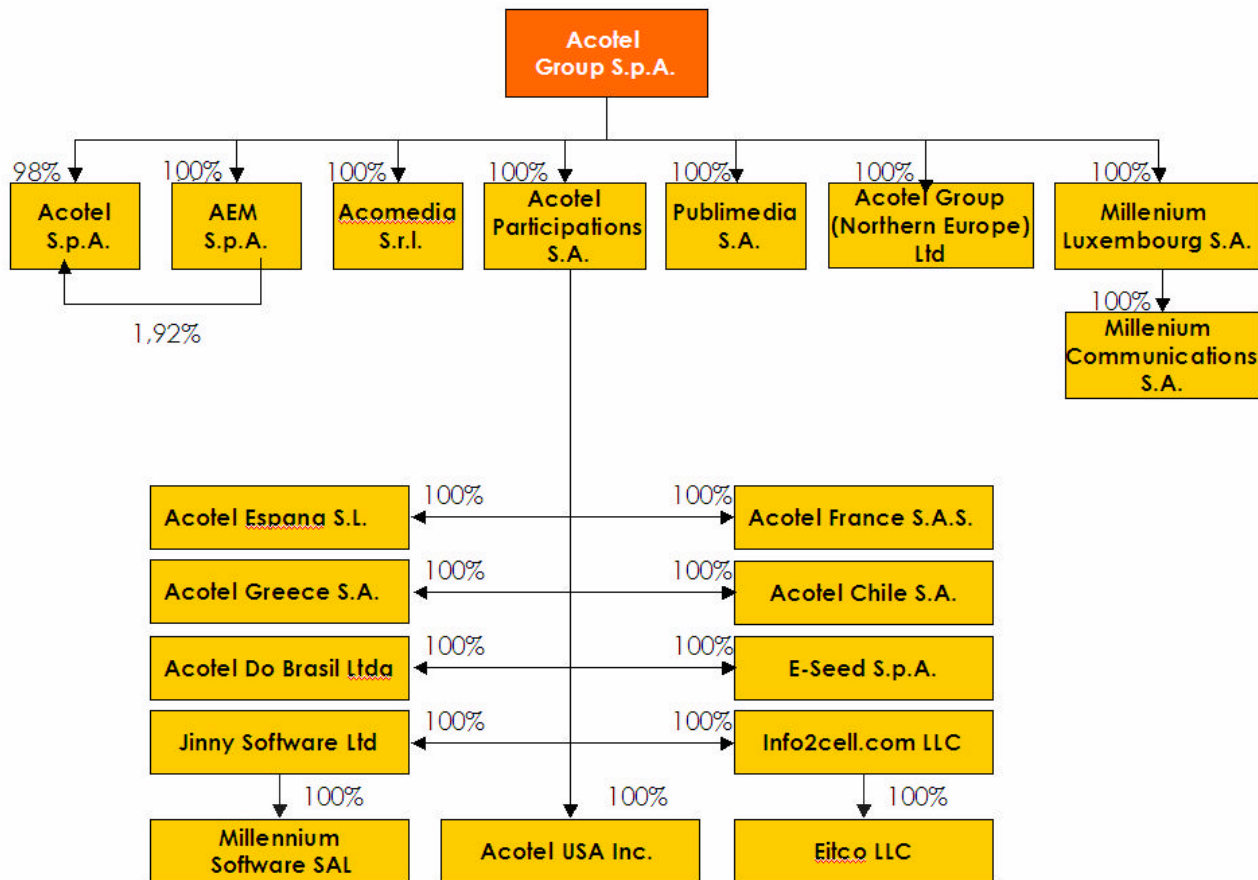
BASIS OF PRESENTATION

The consolidated accounts as of September 30, 2004 have been prepared on the basis of the accounting policies established by the Italian Regulatory Commission for Companies and the Stock Market (CONSOB) in accordance with 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 September 30, 2004 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 a 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 pre-tax result for the period.

The following chart shows the structure of the Acotel Group as of September 30, 2004.



The following table provides summary information on consolidated companies held, directly or indirectly, by *Acotel Group S.p.A.*, the Parent Company.

Company	Date of acquisition	Group's ownership (%)	Registered office	Share capital	
				Currency	Amount
Acotel S.p.A.	April 28, 2000	99.9% (4)	Rome	EURO	13,000,000
AEM Advanced Electronic Microsystems S.p.A.	April 28, 2000	99.9%	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% (5)	Santiago, Chile	USD	17,310
Acotel Espana S.L.	April 28, 2000	100% (5)	Madrid	EURO	3,006
Acotel Greece S.A.	April 28, 2000	100% (5)	Athens	EURO	58,600
Acotel Do Brasil LTDA	August 8, 2000 (1)	100% (5)	Rio de Janeiro	BRL	1,127,500
Acotel France S.A.S.	October 22, 2002 (1)	100% (5)	Paris	EURO	40,000
Jinny Software Ltd.	April 9, 2001	100% (5)	Dublin	EURO	2,972
Millennium Software SAL	April 9, 2001	99.9% (7)	Beirut	LPD	30,000,000
Info2cell.com LLC-FZ	January 29, 2003 (3)	100% (5)	Dubai	AED	18,350,000
Emirates for Information Technology Co.	January 29, 2003	100% (8)	Amman	JD	710,000
E-Seed Telecommunications S.p.A.	July 10, 2002 (2)	100%	Rome	EURO	400,000
Millenium Luxembourg S.A.	April 28, 2000	100% (5)	Luxembourg	EURO	38,850
Millenium Communications S.A.	April 28, 2000	100% (6)	Luxembourg	EURO	199,800
Publimedia S.A.	April 28, 2000	100%	Luxembourg	EURO	38,850
Acotel USA Inc.	June 28, 2003 (1)	100% (5)	Wilmington	USD	100,000
Acotel Group (Northern Europe) Ltd	May 27, 2004 (1)	100%	Dublin	EURO	100,000

(1) The date of entry into the Group coincides with the date of the company's incorporation.

(2) Prior to such date the Group already held 50% of the company's share capital, posted to equity investments in associated companies.

(3) Prior to such date the Group already held 33% of the company's share capital, posted to equity investments in associated companies.

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

(5) Controlled via Acotel Participations S.A.

(6) Controlled via Millenium Luxembourg S.A.

(7) Controlled via Jinny Software Ltd.

(8) Controlled via Info2cell.com LLC-FZ.

The analysis of net debt as of September 30, 2004 is compared with the corresponding data as of June 30, 2004, December 31, 2003 and September 30, 2003.

The table showing gross investment for the third quarter of 2004 and for the period January 1 to September 30, 2004 is compared with the corresponding data for the same periods in 2003.

CONSOLIDATION PRINCIPLES

Minority interest in income (loss) for the period

The minority interest in the income or losses 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 realized in relation to third parties are eliminated.

Foreign currency translation

The income statements of foreign registered companies are translated into euros applying average exchange rates for the period as published by the Italian Exchange Office.

OTHER INFORMATION

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

The data shown are not based on estimates.

The quarterly report is unaudited.

NOTES TO THE INCOME STATEMENT

Revenues from sales of goods and services

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

(thousands of euros)

	2004		2003	
	July 1 - Sept. 30	Jan. 1 - Sept. 30	July 1 - Sept. 30	Jan. 1 - Sept. 30
SERVICES TO NETWORK OPERATORS	3,965	10,751	3,706	9,856
MEDIA SERVICES	222	323	-	-
CORPORATE SERVICES	80	227	89	266
SOFTWARE DEVELOPMENT	-	-	134	390
DESIGN OF ICT EQUIPMENT	460	1,575	583	2,261
DESIGN OF SECURITY SYSTEMS	458	1,219	235	692
OTHER	-	1	-	5
Total	5,185	14,096	4,747	13,470

Value added services (VAS) provided to network operators totaled 3,965 thousand euros. This amount includes revenues earned by the subsidiary *Acotel S.p.A.* from the provision of services to *Telecom Italia Mobile S.p.A.* (approximately 2.4 million euros), revenues earned by *Acotel do Brasil* (approximately 0.7 million euros) from the provision of services to Brazilian mobile phone operators, revenues earned by the subsidiary *Info2cell* (approximately 0.5 million euros), generated by leading Middle-eastern operators, as well as revenues posted by *Acotel Group (Northern Europe)* (approximately 0.3 million euros) via commercial relations with European operators.

Revenues generated by services supplied to media companies (television and radio broadcasters, newspapers, magazines, etc.) totaled 222 thousand euros. This amount represents a significant increase and relates essentially to services specified in a commercial agreement signed with MTV in June 2004.

Revenues from corporate services amounted to 80 thousand euros, in line with the same period of 2003.

Revenues from ICT equipment totaled 460 thousand euros in the third quarter of 2004. Such revenues mainly regard the activities carried out by the subsidiary *Jinny Software* and relate to supply and maintenance contracts with mobile telephone operators operating in Europe, the Middle East and Africa. The decrease compared to the same period of 2003 is due to the criterion used to report the revenues generated by this business segment, in accordance with which the agreed amount is posted to the accounts only upon acceptance by the customer.

Revenues from the design and production of electronic security systems amounted to 458 thousand euros in the third quarter of 2004. Such revenues refer to the design, production and installation of peripheral security systems and to the supply, installation and maintenance of remote surveillance hardware and software. The approximate 95% increase with respect to the third quarter in 2003

primarily related to ordinary and extraordinary maintenance and upgrading activities involving the remote surveillance systems installed at the Bank of Italy's branch offices, in accordance with an agreement signed during the fourth quarter of 2003.

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

(thousands of euros)

	2004		2003	
	July 1 - Sept. 30	Jan. 1 - Sept. 30	July 1 - Sept. 30	Jan. 1 - Sept. 30
ITALY	3,250	9,660	3,626	9,962
OTHER EUROPEAN COUNTRIES	448	1,299	444	1,062
MIDDLE EAST	813	2,065	677	1,626
AFRICA	-	214	-	820
LATIN AMERICA	674	812	-	-
OTHER	-	46	-	-
Total	5,185	14,096	4,747	13,470

Operating costs

Purchases of goods and services and lease expense

This item includes the following:

(thousands of euros)

	2004		2003	
	July 1 - Sept. 30	Jan. 1 - Sept. 30	July 1 - Sept. 30	Jan. 1 - Sept. 30
Raw and ancillary materials and consumables	436	581	148	433
Service costs	2,205	6,097	1,953	5,667
Lease expense	313	1,003	341	978
Total	2,954	7,681	2,442	7,078

The *costs of raw and ancillary materials and consumables* relate to the purchase of materials used in the construction of telecommunications equipment, on the part of *Jinny Software Ltd.* (382 thousand euros) and *Acotel Group S.p.A.* (40 thousand euros), and of electronic security systems, on the part of *AEM S.p.A.* (14 thousand euros).

The increase reported in the third quarter, as well as in the first nine months of the year, is primarily due to the greater volume of production activity carried out by the Irish subsidiary.

Service costs for the third quarter of 2004 amounted to 2,205 thousand euros, representing an increase of around 13% compared to the same period of 2003. The rise primarily reflects the increased costs

incurred by the Group for the purchase of SMS packages from telephone operators. These are used in providing services directly to final customers (B2C).

The main component of the *Service costs* during the third quarter of 2004 was the cost of information purchased from external providers, totaling 691 thousand euros and representing 31% of total service costs during the first nine months of 2004. The next most significant items, in order of importance, are costs relating to the acquisition of SMS packages from telephone operators (230 thousand euros), fees for commercial, administrative, legal, fiscal and technical consultancy services received by the Group (215 thousand euros), fees paid to Directors and Statutory Auditors (161 thousand euros), promotional activities carried out by the Group (160 thousand euros), and travel expenses (106 thousand euros).

The remaining portion relates to general overhead (utilities, connection costs, external works, telephone costs, etc.) incurred in the course of the Group's ordinary operations.

Lease expense essentially includes rentals on the buildings in which Group companies operate.

Labor costs

Labor costs break down as follows:

(thousands of euros)

	2004		2003	
	July 1 - Sept. 30	Jan. 1 - Sept. 30	July 1 - Sept. 30	Jan. 1 - Sept. 30
Wages and salaries	1,533	4,754	1,115	3,882
Social security contributions	345	1,027	315	856
Employee severance indemnities	72	261	43	153
Other costs	118	383	95	253
Total	2,068	6,425	1,568	5,144

The increase in labor costs is due to the increase in the headcount of Group companies with facilities in Europe, the Middle East, Latin America and the United States.

The following table provides a breakdown of the average number of employees by category as of September 30, 2004 and a comparison of the average numbers for the third quarters of 2003 and 2004 and the first nine months of 2003 and 2004:

	Sept. 30, 2004	Average Q3 2004	Average Q3 2003	Average 9M 2004	Average 9M 2003
Managers	16	17	15	16	15
Supervisors	27	27	28	26	26
White-collar/Blue-collar	156	145	141	149	128
Total	199	189	184	191	169

The following table shows the geographical distribution of the Group's human resources.

	Sept. 30, 2004	Sept. 30, 2003
Italy	92	85
Ireland	17	19
France	4	2
Lebanon	30	30
Brazil	10	7
United Arab Emirates	14	12
Jordan	28	23
USA	4	5
Total	199	183

Amortization, depreciation and write-downs

Details of these items are provided in the following table:

(thousands of euros)

	2004		2003	
	July 1 - Sept. 30	Jan 1 - Sept. 30	July 1 - Sept. 30	Jan 1 - Sept. 30
Amortization of intangible assets	548	1,620	563	1,619
Depreciation of tangible assets	179	712	272	774
Provisions for doubtful accounts	2	54	-	11
Total	729	2,386	835	2,404

Amortization of intangible assets mainly relates to amortization of goodwill arising from consolidation following acquisition of the holdings in the subsidiaries *AEM*, *Jinny Software*, *Millennium Software*, *Info2cell* and *EITCO*. The relevant sums for the third quarter amount to 12 thousand euros, 336 thousand euros, 1 thousand euros, 84 thousand euros and 6 thousand euros, respectively.

Depreciation of tangible assets mainly relates to telecommunications equipment and infrastructure used by Group companies.

Other expenses

This item amounted to 87 thousand euros during the third quarter of 2004 and includes other general expenses and charges incurred by Group companies in the course of ordinary operations.

Financial income and expense

Net financial income amounted to 99 thousand euros for the third quarter.

This result includes interest income of 113 thousand euros earned on the short-term investment of liquidity in bonds or repurchase agreements, or on deposits in the current accounts of Group companies, and is stated net of interest expense and bank charges totaling 14 thousand euros.

In accordance with the correct application of accounting principles, further unrealized interest income of 127 thousand euros on existing short-term investments in money market funds has not been posted to the Income Statement, even if accrued as of September 30, 2004.

The average rate of interest earned on short-term investments of liquidity during the third quarter of 2004 was around 1.9%.

Extraordinary income and expense

The item reported a net negative balance of 36 thousand euros for the third quarter of 2004.

FINANCIAL REVIEW

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(thousands of euros)	2004		2003	
	July 1- Sept. 30	Jan. 1 -Sept. 30	July 1- Sept. 30	Jan. 1 -Sept. 30
Total revenues	5,168	15,582	4,757	13,772
Materials and service costs	3,046	7,871	2,492	8,193
Gross margin	2,122	7,711	2,265	5,579
	41.06%	49.49%	47.61%	40.51%
Labor costs	2,068	6,425	1,568	5,144
EBITDA	54	1,286	697	435
	1.04%	8.25%	14.65%	3.16%
Depreciation	179	712	272	774
Amortization	548	1,620	563	1,619
Provisions for doubtful accounts	2	54	0	11
EBIT	(675)	(1,100)	(138)	(1,969)
	-13.06%	-7.06%	-2.90%	-14.30%
Net financial income (expense)	99	361	43	147
Income (loss) from ordinary activities	(576)	(739)	(95)	(1,822)
	-11.15%	-4.74%	-2.00%	-13.23%
Adjustments to financial assets	-	(83)	0	0
Extraordinary income (loss), net	(36)	(27)	(9)	(208)
Pre-tax income (loss)	(612)	(849)	(104)	(2,030)
	-11.84%	-5.45%	-2.19%	-14.74%
Minority interest	-	-	-	(2)
Group interest in pre-tax income (loss)	(612)	(849)	(104)	(2,028)
	-11.84%	-5.45%	-2.19%	-14.73%

The Acotel Group's performance during the third quarter of 2004 reports an increase in revenues and a reduction in EBITDA compared to the same period of 2003. EBIT amounted to a negative balance of 675 thousand euros, representing a decrease compared with the third quarter of 2003, which posted a negative balance of 138 thousand euros.

Due to financial management and extraordinary items, the loss for the period amounts to 612 thousand euros compared with a negative balance of 104 thousand euros posted during the same period of 2003.

The increase in the loss posted for the third quarter compared to the third quarter of 2003 was due essentially to Group investments aimed at consolidating its structure in Italy and abroad. Specifically, the costs items that reported the most important increases are:

- labor costs: these rose approximately 500 thousand euros due to increased headcounts in Group companies;
- costs incurred for the acquisition of materials utilized to construct telecommunications equipment and electronic security systems: these rose by approximately 290 thousand euros;
- service costs: these rose by approximately 250 thousand euros due primarily to the acquisition of SMS packages from telephone operators, especially on the part of the subsidiary, *Info2cell*.

Revenues from sales and services by business segment

(thousands of euros)

	2004		2003	
	July 1 - Sept. 30	Jan. 1 - Sept. 30	July 1 - Sept. 30	Jan. 1 - Sept. 30
SERVICES TO NETWORK OPERATORS	3,965	10,751	3,706	9,856
MEDIA SERVICES	222	323	-	-
CORPORATE SERVICES	80	227	89	266
SOFTWARE DEVELOPMENT	-	-	134	390
DESIGN OF ICT EQUIPMENT	460	1,575	583	2,261
DESIGN OF SECURITY SYSTEMS	458	1,219	235	692
OTHER	-	1	-	5
Total	5,185	14,096	4,747	13,470

Value added services for network operators produced revenues amounting to 76% of the total. The increase of 259 thousand euros compared to the third quarter of 2003 was due the recovery in activity on the part of the subsidiary, *Acotel do Brasil*, whose revenues more than offset the reduction in revenues from *Telecom Italia Mobile* reported by *Acotel S.p.A.*. During the period, this latter amount was 2,468 thousand euros with respect to the 3,128 thousand euros reported in the third quarter of 2003.

The services supplied to network operators include, in addition to the above revenues deriving from the provision of services to *TIM*, revenues earned by the subsidiaries *Acotel do Brasil*, totaling 674 thousand euros, *Info2cell*, totaling 507 thousand euros, and *Acotel Group (Northern Europe)*, totaling 311 thousand euros.

The good result posted during the third quarter in the segment “Media services” related to services provided to the television broadcaster, *MTV*, for its programs “Mobile Chart”, “Match Maker” and “Playground”, fully described in the Report on Group operations for the first six months of 2004.

At the end of September a commercial agreement was signed with the Italian State Radio and Television Corporation (RAI). This agreement covers a series of services linked to a television program, “Un medico in famiglia”, which allow viewers to answer questions posted during the transmission, to download ring tones and to have news about the program’s characters by simply sending an SMS.

Revenues from corporate services, consisting of value added information services provided to companies requiring mobile telephone services in order to better access the market and expand their commercial offer, totaled 80 thousand euros, compared to 89 thousand euros in the same period of 2003.

Revenues from the design and development of ICT equipment totaled 460 thousand euros, compared to 583 thousand euros during the third quarter of 2003. This drop was essentially due to the long life cycle of a product which does not lend itself to being evaluated on a quarterly basis.

During the period under examination, most of the revenues posted by the segment, relating entirely to the activity carried out by *Jinny Software*, came from contracts for the development of equipment for operators in Turkmenistan, Uganda, Bangladesh, Kuwait, Syria and Saudi Arabia, which posted total

revenues of approximately 430 thousand euros. The remaining portion is represented by fees for technical assistance supplied to a number of leading mobile telecommunications operators in the Middle East and Europe in relation to previously installed equipment. Through its Irish subsidiary, the Acotel Group also offers ongoing technical assistance and technological updates (both on and off site), in addition to activities involving the sale of ICT equipment and the concession of licenses for use.

Revenues from security systems during the period totaled 458 thousand euros, representing a considerable increase compared to the 235 thousand euros posted in the corresponding period of 2003. These derive mainly from maintenance and assistance carried out by the subsidiary *AEM S.p.A.* for remote surveillance systems installed at police headquarters in Italy and at some of the Bank of Italy's branch offices.

Operating costs report an increase in the costs of materials and external services, which rose from 2,492 thousand euros to 3,046 thousand euros.

The main factors behind this change were the increase in the costs of raw materials, which rose from 148 thousand euros during the third quarter of 2003 to 436 thousand euros during the third quarter of 2004, and to the purchase of SMS packages from telephone operators, the cost of which amounted to 230 thousand euros in the third quarter of 2004. This latter item amounted to zero in the same period of 2003.

Labor costs rose from the 1,568 thousand euros posted in the third quarter of 2003 to 2,068 thousand euros in the third quarter of 2004. This reflects an increase in the Group's headcount, both in Italy and abroad.

Analysis of net debt

Net cash and cash equivalents as of September 30, 2004 amount to 32,671 thousand euros, representing a decrease compared to the 33,577 thousand euros posted as of June 30, 2004. This reduction was primarily due to the Parent Company's acquisition of treasury stock, which increased by 781 thousand euros during the third quarter of 2004.

Gross investment in fixed assets

The value of gross investment carried out by the Group during the third quarter of 2004 totaled 32 thousand euros as regards intangible fixed assets, 119 thousand euros as regards tangible fixed assets and 677 thousand euros as regards long-term financial assets.

The increase in tangible fixed assets is essentially linked to the normal process of renewing operating equipment.

The increase in long-term financial assets is due to the purchase of treasury stock on the part of Acotel Group S.p.A. and the disposal of a small portion of the instruments in which the Group's liquidity has been invested.

SUBSEQUENT EVENTS

During the period from October 1, 2004 to the date of this report, no significant events have taken place.

OPERATING OUTLOOK

An improvement in the Group's performance is expected in the short-term due to the completion of numerous contracts regarding the design of ICT equipment, which, as explained above, will allow for the posting of all the related revenues.

The medium-term could see further improvements deriving from the start of commercial activities in countries where the Group is present with its own operating structures, and where it currently incurs related overhead and labor costs, without benefiting from an increase in business volumes.