REPORT ON GROUP OPERATIONS
FOR THE THREE MONTHS FROM JANUARY 1 TO MARCH 31, 2004

CONSOLIDATED QUARTERLY ACCOUNTS

CONSOLIDATED INCOME STATEMENT
for the period from January 1 to March 31, 2004

(thousands of euros)	Jan. 1 - Mar. 31 2004	Jan. 1 - Mar. 31 2003
Total revenues:		
- revenues from the sale of goods and services	4,032	5,035
-changes in inventories of work in progress,		
semi-finished and finished goods	19	
- capitalized costs and expenses	2	-
- other revenues and income	1,231	4
Total	**5,284**	**5,039**
Operating costs:		
- raw and ancillary materials and consumables	39	175
- service costs	1,793	1,991
- lease expense	348	321
- labor costs:	2,192	1,631
wages and salaries	*1,611*	*1,255*
social security contributions	*332*	*263*
employee severance indemnities	*83*	*46*
other costs	*166*	*67*
- amortization, depreciation and write-downs:	833	775
amortization of intangible fixed assets	*526*	*450*
depreciation of tangible fixed assets	*307*	*314*
provisions for doubtful accounts	-	*11*
- changes in raw and ancillary materials, consumables and goods for resale	21	(4)
- other operating costs	28	77
Total	**5,254**	**4,966**
Operating income	**30**	**73**
Financial income and expense:		
- other financial income:		
. from long-term receivables:		
. other		
. from marketable securities		81
. other:		
from others	*111*	96
- expense		
to others	(27)	(128)
Financial income (expense), net	**84**	**49**
Adjustments to financial assets:		
- write-downs of equity investments		(102)
Adjustments to financial assets	**-**	**(102)**
Extraordinary income and expense:		
- income	11	90
- expense	(24)	(50)
Extraordinary income (expense), net	**(13)**	**40**
Income (loss) for the period	**101**	**60**
Minority interest		2
Group interst in income (loss) for the period	**101**	**58**

ANALYSIS OF CONSOLIDATED NET DEBT AS OF MAR. 31, 2004

(thousands of euros)

	Mar. 31, 2004	Dec. 31, 2003
Short-term investments	28,885	16,466
Cash and cash equivalents	5,792	17,590
Short-term bank debt and current portions of long-term bank debt	(132)	(74)
Bonds issued falling due within 12 months	(163)	-
Net cash and cash equivalents (A)	**34,382**	**33,982**
Bonds issued falling due beyond 12 months	-	(158)
Medium- to long-term debt	(353)	(353)
Medium- to long-term indebtedness (B)	**(353)**	**(511)**
Net liquidity/(debt) (A)+(B)	**34,029**	**33,471**

GROSS INVESTMENT IN FIXED ASSETS

(thousands of euros)

	Q1 2004	Q1 2003
Intangibles	114	1,852
Tangibles	229	1,290
Total	**343**	**3,142**

NOTES
TO THE CONSOLIDATED
QUARTERLY ACCOUNTS

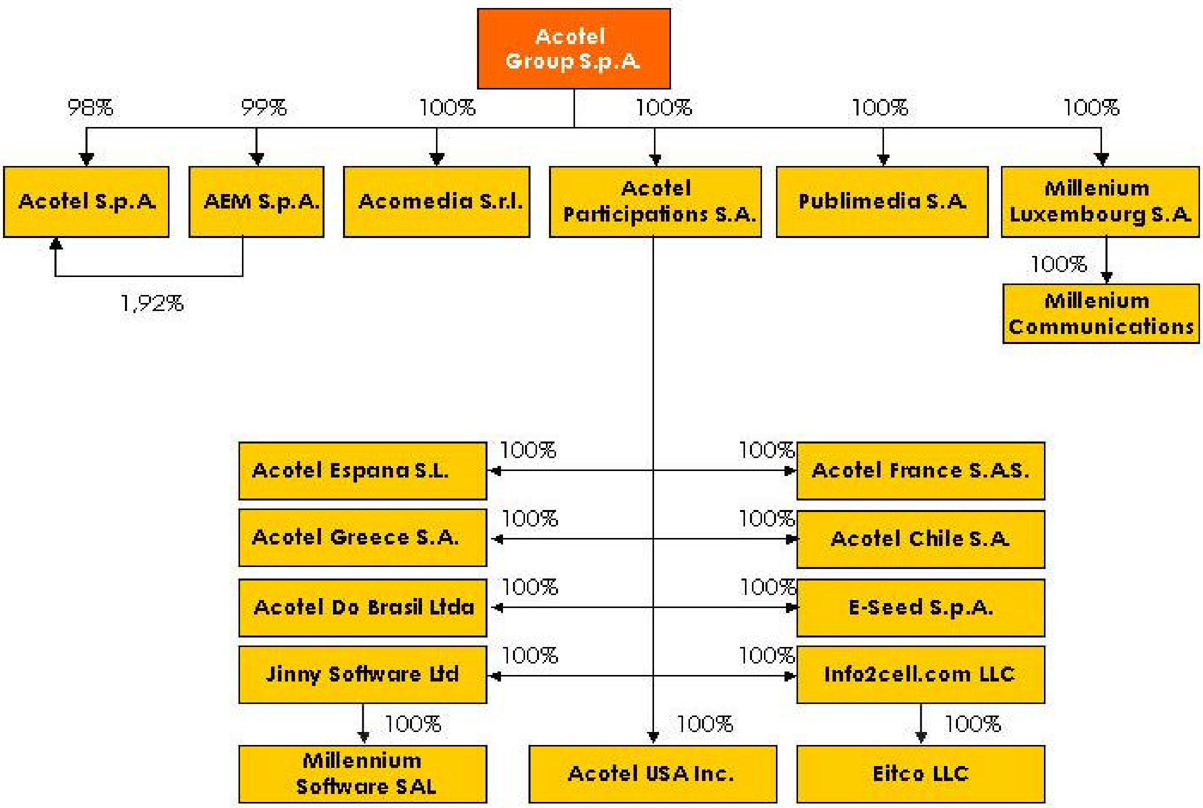
BASIS OF PRESENTATION

The consolidated accounts as of March 31, 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 Annex 3D of resolution no. 11971 of May 14, 1999, and 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, 2004 used as the basis for the consolidated accounts were prepared on the basis of the accounting records at such date and 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 pre-tax result for the period.

The following chart shows the structure of the Acotel Group as of March 31, 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
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%	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 3,000
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% (4) (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

(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.

On January 27, 2004 the wholly owned Group company, Acotel do Brasil LTDA, carried out a share capital increase of BRL1,077,500, bringing the company's fully paid-in share capital to a total of BRL1,127,500.

The analysis of net debt as of March 31, 2004 is compared with the corresponding data as of December 31, 2003.
The table showing gross investment for the period January 1, 2004 – March 31, 2004 is compared with the corresponding data for the same period in 2003.

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 euros 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 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)	1Q2004	%	1Q2003	%
SERVICES TO NETWORK OPERATORS	3,400	84.3%	3,745	74.4%
CORPORATE SERVICES	62	1.5%	81	1.6%
DESIGN OF ICT EQUIPMENT	302	7.5%	873	17.3%
SOFTWARE DEVELOPMENT	-	0.0%	129	2.6%
DESIGN AND OPER. OF SECURITY SYSTEMS	268	6.6%	203	4.0%
OTHER		0.0%	4	0.1%
	4,032	**100%**	**5,035**	**100%**

Value added services (VAS) provided to network operators generated revenues of 3,400 thousand euros during the first quarter of 2004, down slightly from the same period of 2003.

This amount includes revenues earned by the subsidiary, *Acotel S.p.A.*, on the services provided to *Telecom Italia Mobile* (2,829 thousand euros), revenues earned by the subsidiary, *Info2cell*, from leading Middle-eastern mobile operators (310 thousand euros), and revenues earned by *Jinny Software* (Dublin) from both European and other operators (248 thousand euros). Compared with the first quarter of 2003, revenues from sales of goods and services earned by the above foreign companies rose 8% and 22%, respectively. In contrast, there was a 15% reduction posted by the Italian subsidiary.

Revenues from services to corporate customers amounted to 62 thousand euros compared with the 81 thousand euros posted for the same period of 2003.

Revenues from ICT equipment totaled 302 thousand euros in the first quarter of 2004, compared with the 873 thousand euros posted in the first quarter of the previous year. Sales in this segment primarily regard the activity carried out by *Jinny Software* and, specifically, contracts with mobile operators in Yemen, Kuwait, Bahrain, Ireland, the United Kingdom and Holland.

Revenues from the design and production of electronic security systems amounted to 268 thousand euros, representing an increase of around 32% with respect to the first three months of 2003. These refer to the design, production, and installation of alarm control systems and the supply, installation and maintenance of remote surveillance hardware and software.

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

(thousands of euros)	**1Q2004**	**%**	**1Q2003**	**%**
ITALY	3,164	78.5%	3,709	73.7%
EUROPE	371	9.2%	323	6.4%
MIDDLE EAST	497	12.3%	1,003	19.9%
	4,032	**100%**	**5,035**	**100%**

Other revenues

Other revenues, totaling 1,231 thousand euros, regarded the final calculation by *Jinny Software* of part of the revenues relating to the supply contract previously signed with *Voinoi* (an ACEA Group company) and settled in March 2004.

Operating costs

Purchases of goods and services and lease expense

This item includes the following:

(thousands of euros)	**1Q2004**	**1Q2003**
Raw and ancillary materials and consumables	60	171
Service costs	1,793	1,991
Lease expense	348	321
Total	**2,201**	**2,483**

The *costs of raw and ancillary materials and consumables* mainly relate to materials used in the production of telecommunications equipment.

Service costs during the first quarter of 2004 amounted to 1,793 thousand euros compared with 1,991 thousand euros during the same period of 2003.
The main component of this item consists of the cost of information purchased from external providers, totaling 549 thousand euros and representing 31% of total service costs.
The next most significant item is consultants' fees, which totaled 257 thousand euros: such fees include the cost of professional commercial services (around 173 thousand euros) as well as administrative, legal and technical services supplied to the Group's 19 companies as support for their activities, in relation to technical and technological upgrades of their operating systems and to develop services and equipment. This component also regards the cost of outsourcing certain administrative functions.

Other components of service costs are directors' and statutory auditors' fees (154 thousand euros), the cost of taking part in marketing events, shows and fairs (96 thousand euros), travel and transfer expenses (86 thousand euros) and the cost of connection to land-based and satellite transmission networks used in the supply of value added services (61 thousand euros).
The remaining portion relates to general expenses (utilities, management and maintenance of the buildings from which Group companies operate, insurance, travel expenses, etc.) incurred in the course of the Group's ordinary operations.

Lease expense primarily refers to rentals on the buildings in which Group companies operate.

Labor costs

Labor costs break down as follows:

(thousands of euros)	1Q2004	1Q2003
Wages and salaries	1,611	1,255
Social security contributions	332	263
Employee severance indemnities	83	46
Other costs	166	67
Total	**2,192**	**1,631**

The following table provides a breakdown of the average number of employees by category for the first quarters of 2004 and 2003:

	Average 1Q 2004	Average 1Q 2003
Senior managers	17	17
Middle managers	25	7
White-collar	138	133
Blue-collar	3	2
Total	**183**	**159**

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

	Mar. 31, 2004	Mar. 31, 2003
Italy	84	77
Ireland	19	21
Lebanon	31	33
France	4	-
Brazil	7	2
United Arab Emirates	12	16
Jordan	22	36
USA	5	-
Total	**184**	**185**

The table shows that the average headcounts of Group companies remained essentially unchanged despite the opening of operating offices in France and the US.

Amortization, depreciation and write-downs

Details of these items are provided in the following table:

(thousands of euros)	1Q2004	1Q2003
Amortization of intangible assets	526	450
Depreciation of tangible assets	307	314
Provisions for doubtful accounts		11
Total	**833**	**775**

Amortization of intangible assets mainly relates to amortization of goodwill arising from consolidation following the acquisition of the holdings in the subsidiaries *AEM*, *Jinny Software*, *Millenium Software*, *Info2cell* and *EITCO*. The relevant sums for the period 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 28 thousand euros during the first 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 107 thousand euros for the first quarter.

This result includes interest income of 134 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 23 thousand euros.
In accordance with the correct application of accounting principles, further unrealized interest income of 39 thousand euros on existing short-term investments in money market funds has not been posted to the Income Statement.

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

Extraordinary income and expense

The item reported a net negative balance of 13 thousand euros for the first quarter of 2004.

FINANCIAL REVIEW

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(thousands of euros)	1Q2004	1Q2003
Total revenues	5,284	5,039
Materials and service costs	2,229	2,560
Gross margin	**3,055**	**2,479**
Labor costs	2,192	1,631
EBITDA	**863**	**848**
	16.33%	*16.83%*
Depreciation	307	314
Amortization	526	450
Provisions for doubtful accounts	-	11
EBIT	**30**	**73**
	0.57%	*1.45%*
Net financial income (expense)	107	49
Adjustments to financial assets	-	(102)
Income (loss) from ordinary activities	**137**	**20**
	2.59%	*0.40%*
Extraordinary income (loss), net	(13)	40
Income (loss) for the period	**124**	**60**
	2.35%	*1.19%*
Income tax	-	
Income (loss) for the period	**124**	**60**
	2.35%	*1.19%*
Minority interest	-	2
Group interest in income (loss) for the period	**124**	**58**
	2.35%	*1.15%*

The Acotel Group's performance during the first quarter of 2004 reports a slight increase in revenues and an essentially unchanged EBITDA compared with the same period of 2003. EBIT amounted to 30 thousand euros compared with the 73 thousand euros posted for the first quarter of 2003.

Due to financial management and extraordinary items for the period, the Group interest in income for the first quarter of 2004 stands at 124 thousand euros, compared with the 58 thousand euros of the first quarter of 2003.

Revenues from sales and services by business segment

(thousands of euros)	1Q2004	%	1Q2003	%
SERVICES TO NETWORK OPERATORS	3,400	84.3%	3,745	74.4%
CORPORATE SERVICES	62	1.5%	81	1.6%
DESIGN OF ICT EQUIPMENT	302	7.5%	873	17.3%
DEVELOPMENT OF SOFTWARE APPLICATIONS	-	0.0%	129	2.6%
DESIGN AND OPER. OF SECURITY SYSTEMS	268	6.6%	203	4.0%
OTHER		0.0%	4	0.1%
	4,032	**100%**	**5,035**	**100%**

Value added services for network operators produced revenues totaling 84% of the total.
The decrease of 345 thousand euros with respect to the same period of 2003 was essentially due to the reduction in revenues from *Telecom Italia Mobile*, which totaled 2,829 thousand euros during the period under examination compared with 3,254 thousand euros in the corresponding period of 2003.
As indicated in the Annual Report 2003, this reduction is connected to the different method of calculating the traffic generated by *TIM* customers, following a review of the method carried out in June 2003. If analyzed on a like-for-like basis, revenues increase by around 18%.

The business segment "Services to network operators" also includes revenues earned by the subsidiaries *Jinny Software*, totaling 214 thousand euros, and *Info2cell*, totaling 310 thousand euros. During the first quarter of 2003, revenues posted by the same two subsidiaries amounted to 204 thousand euros and 287 thousand euros, respectively.

By means of its Ireland-registered subsidiary, *Jinny Software*, the *Acotel* Group also acts as an Application Service Provider, supplying ICT equipment developed on the basis of the customer's specific needs.
In addition to the sale of equipment and the concession of licenses of use, the commercial offering also includes ongoing technical assistance and technological updates (carried out on equipment both on and off site). Such services are supplied in return for periodic fees.

Revenues from the design and development of ICT equipment totaled 302 thousand euros, compared with 873 thousand euros in the first quarter of 2003. The reduction is attributable to the length of the sale cycles for the products sold by *Jinny Software*, which do not lend themselves 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 with operators based in Yemen and the UK, which produced revenues of 146 thousand euros. The remaining portion is represented by fees for technical assistance supplied to a number of leading mobile telecommunication operators in the Middle East and Europe in relation to previously installed equipment.

In contrast to the previous year, the Group did not report any revenues from the development of software applications. This was due to the agreed termination of the contract with *Voinoi.*
In March, *ACEA S.p.A.* and *Acotel Group S.p.A.* signed a new agreement which replaces any and all past agreements between the two companies or between any of their respective subsidiaries.
Said contract goes over and beyond the partnership for which *Voinoi S.p.A* was set up and states that the *Acotel Group* will provide support to *ACEA* as regards the start-up of the platform already supplied and software applications, both developed and to be developed. The contract also specifies that the *Acotel Group* is responsible for both the ordinary and extraordinary maintenance of hardware components and software applications and for training ACEA personnel so that ACEA can autonomously manage the platform.
On the basis of the above activities, during the four years in which the contract will be in effect, fees to be paid by ACEA to Acotel Group will total no less than 2.1 million euros.

Revenues from the provision of value added services to corporate customers during the first quarter of 2004 amounted to 62 thousand euros, down slightly from the 82 thousand euros of the first quarter of 2003.

Revenues from security systems during the period totaled 268 thousand euros, up from the 203 thousand euros of the first quarter 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 provincial offices. The increase in revenues generated by this business segment was a direct result of the inclusion of a further 60 police headquarters in the contract with *Telecom Italia S.p.A.*.

Other revenues, totaling 1,231 thousand euros, relate to the final calculation by the subsidiary, *Jinny Software*, of part of the revenues connected to the supply contract previously signed with *Voinoi* (an ACEA Group company) and settled in March 2004.

Operating costs report a significant decrease in the cost of materials and external services, which fell from 2,560 thousand euros to 1,832 thousand euros.
The main factors behind this change were the reduction in the costs of raw materials, which fell from 171 thousand euros during the first quarter of 2003 to 60 thousand euros during the same period in 2004, and the containment of the cost of purchasing content from providers outside the Group, which amounted to 549 thousand euros in the first three months of 2004, compared with 719 thousand euros during the same period in 2003.

The increase in amortization and depreciation, from 775 to 833 thousand euros, was a direct consequence of the increase in fixed assets reported in the accounts, especially on the part of foreign subsidiaries, which produced parts of the platform so as to operate more effectively in their domestic markets. The increase also reflects the faster rate of depreciation applied, especially by the subsidiary, *Info2cell,* so as to bring its rate into line with the Group's rates.

Finally, financial management made a greater contribution to the overall result, especially due to more stable exchange rates compared with the first quarter of the previous year.

Analysis of net debt

Net cash and cash equivalents as of March 31, 2004 amount to 34,029 thousand euros, essentially in line with the 33,471 thousand euros reported at the end of 2003.

Gross investment in fixed assets

The value of gross investment carried out by the Group during the first quarter of 2004 totaled 114 thousand euros as regards intangible fixed assets and 229 thousand euros as regards tangible fixed assets: Such investments are connected to the capitalization of costs incurred for the technological update of functioning platforms and to the creation of support infrastructure needed for the start-up of foreign subsidiaries such as *Acotel France* and *Acotel USA*.

SUBSEQUENT EVENTS

On April 22, 2004 the agreement with *Telecom Italia Mobile S.p.A.* was renewed.
The new agreement, which will govern relations between *TIM* and *Acotel* up to December 31, 2008, is the same as the previous contract in that it provides for the recognition of fees in favor of Acotel calculated in accordance with the revenue sharing method. In the five years the contract will be in effect, should at least the same volumes of traffic as those generated in 2003 be reached, the contract will generate total related revenues of at least 55 million euros for Acotel.

This agreement further consolidates the technological and commercial collaboration which has characterized the nine years of relations with TIM, begun with the introduction of value added SMS services.

OPERATING OUTLOOK

The renewed contract with *TIM* allows the Group to strengthen its role as the key service provider to Italy's leading mobile telecommunications operator and, at the same time, to put itself forward as a potential privileged partner in the foreign countries where this customer operates.

Improvements in the Group's overall performance can be expected based on the capacity of foreign subsidiaries to boost their respective market shares, in the case of Jinny Software and Info2cell, and to begin commercial operations, in the case of Acotel France and Acotel USA.