REPORT ON GROUP OPERATIONS
FOR THE THREE MONTHS FROM JANUARY 1 TO MARCH 31, 2005

CONSOLIDATED QUARTERLY ACCOUNTS

CONSOLIDATED INCOME STATEMENT
for the period from January 1 to March 31, 2005

(thousands of euros)	Jan. 1 - Mar. 31 2005	Jan. 1 - Mar. 31 2004
Total revenues:		
- revenues from the sale of goods and services	5.251	4.032
-changes in inventories of work in progress semi-finished and finished goods	4	19
- capitalized costs and expenses	-	2
- other revenues and income	183	1.231
Total	**5.438**	**5.284**
Operating costs:		
- raw and ancillary materials and consumables	351	39
- service costs	2.316	1.793
- lease expense	363	348
- labor costs:	2.408	2.192
wages and salaries	*1.723*	*1.611*
social security contributions	*408*	*332*
employee severance indemnities	*104*	*83*
other costs	*173*	*166*
- amortization, depreciation and write-downs:	705	833
amortization of intangible fixed assets	*534*	*526*
depreciation of tangible fixed assets	*158*	*307*
provisions for doubtful accounts	*13*	-
- changes in raw and ancillary materials, consumables and goods for resale	(14)	21
- other operating costs	148	28
Total	**6.277**	**5.254**
Operating income	**(839)**	**30**
Financial income and expense:		
- other financial income:		
. from long-term receivables:		
. other	-	*23*
. from marketable securities	*120*	-
other:		
from others	*146*	111
- expense		
to others	(35)	(27)
- profits (losses) on foreign currency transactions	47	-
Financial income (expense), net	**278**	**107**
Adjustments to financial assets	**-**	**-**
Extraordinary income and expense:		
- income	13	11
- expense	(36)	(24)
Extraordinary income (expense), net	**(23)**	**(13)**
Income (loss) for the period	**(584)**	**124**
Minority interest	-	-
Group interest in income (loss) for the period	**(584)**	**124**

ANALYSIS OF CONSOLIDATED NET DEBT AS OF MARCH 31, 2005

(thousands of euros)

	March 31, 2005	December 31, 2004
Short-term investments	20,549	17,767
Cash and cash equivalents	12,059	13,926
Short-term bank debt and current portions of long-term bank debt	(130)	(112)
Net cash and cash equivalents (A)	**32,478**	**31,581**
Medium- to long-term debt	(256)	(256)
Medium- to long-term indebtedness (B)	**(256)**	**(256)**
Net liquidity/(debt) (A)+(B)	**32,222**	**31,325**

GROSS INVESTMENT IN FIXED ASSETS

(thousands of euros)

	Q1 2005	Q1 2004
Intangibles	92	114
Tangibles	161	229
Long-term financial assets	690	-
Total	**943**	**343**

NOTES
TO THE CONSOLIDATED
QUARTERLY ACCOUNTS

ACCOUNTING POLICIES

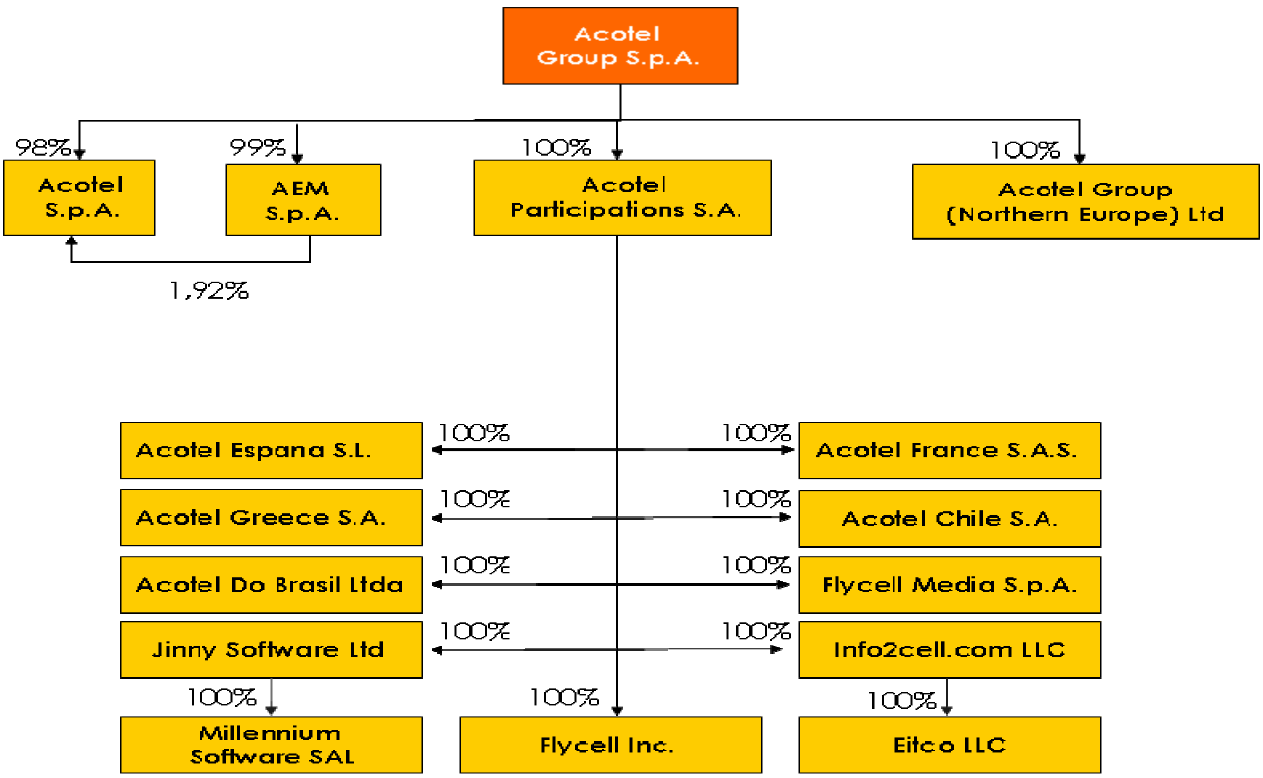
The Company has availed itself of the right, granted by the CONSOB in a document dated February 17, 2005, to prepare the first consolidated quarterly accounts for the financial year beginning January 1, 2005 under Italian GAAP rather than IAS/IFRS standards.

Therefore, the consolidated accounts as of March 31, 2005 have been prepared on the basis of the accounting standards 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, 2005 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, to report the pre-tax result for the period.

The following chart shows the structure of the Acotel Group as of March 31, 2005.



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	99,9%	Rome	EURO	858,000
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	60,000
Acotel Do Brasil LTDA	August 8, 2000 (1)	100% (5)	Rio de Janeiro	BRL	1,868,250
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% (6)	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% (7)	Amman	JD	710,000
Flycell Media S.p.A.	July 10, 2002 (2)	100%	Rome	EURO	400,000
Flycell Inc.	June 28, 2003 (1)	100% (5)	Wilmington	USD	100,000
Acotel Group (Northern Europe) Ltd	May 27, 2004 (1)	100%	Dublin	EURO	101,000

(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 Jinny Software Ltd.
(7) Controlled via Info2cell.com LLC-FZ.

The subsidiary formerly known as Acotel USA Inc. changed its name to Flycell Inc. in January 2005, whilst the company formerly known as E-Seed Telecommunications S.p.A. changed its name to Flycell Media S.p.A. in February 2005.

In April 2005 liquidation of the subsidiary, *Acotel Greece S.A.,* was completed.

The analysis of net debt as of March 31, 2005 is compared with the corresponding data as of December 31, 2004.

The table showing gross investment for the period January 1, 2005-March 31, 2005 is compared with the corresponding data for the same period of 2004.

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 is 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 translations

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)	Q1 2005	%	Q1 2004	%
SERVICES TO NETWORK OPERATORS	3,671	69.9%	3,400	84.3%
DESIGN OF ICT EQUIPMENT	960	18.3%	302	7.5%
DESIGN AND OPERATION OF SECURITY SYSTEMS	250	4.8%	268	6.6%
MEDIA SERVICES	166	3.1%	-	0.0%
B2C SERVICES	94	1.8%	-	0.0%
CORPORATE SERVICES	70	1.3%	62	1.5%
SOFTWARE DEVELOPMENT	40	0.8%	-	0.0%
	5,251	**100%**	**4,032**	**100%**

Value added services (VAS) provided to network operators generated revenues of 3,671 thousand euros during the first quarter of 2005, representing an increase of around 8% compared with the same period of 2004.

This amount includes revenues earned by the subsidiary, *Acotel S.p.A*, on services provided to *Telecom Italia Mobile* (2,495 thousand euros), revenues earned by the subsidiary, *Acotel do Brasil,* on services provided to the Brazilian operators, *TIM Celular*, *TIM Sul, Maxitel* and *TIM Nordeste Telecomunicaçoe* (561 thousand euros), revenues earned by *Info2cell* from leading Middle-eastern mobile operators (374 thousand euros) and revenues earned by *Acotel Group (Northern Europe)* from European operators (264 thousand euros). The increase compared with the same period of 2004 was due primarily to the renewed activity of the Brazilian subsidiary.

Revenues from ICT equipment in the first three months of 2005 totaled 960 thousand euros compared with 302 thousand euros posted in the same period of 2004. Sales in this segment regard the activity carried out by *Jinny Software* and, specifically, supply and maintenance contracts with mobile phone operators in Latin America, Africa, Europe, Asia and the Middle East. The significant increase with respect to the same period of 2004 was due to the effects of agreements signed with channel partners, which led to an increase in the external sales force, as well as to the supply of innovative messaging platforms with distributed architecture, which allowed *Jinny Software* to consolidate its position as a supplier of network equipment.

Revenues from the design and production of electronic security systems amounted to 250 thousand euros, representing a slight drop with respect to the first three months of 2004. These refer to the activities carried out by the subsidiary, *AEM S.p.A*., which include supply, installation, assistance and maintenance activities for remote security systems installed at police headquarters in Italy and at a number of provincial branch offices of the Bank of Italy.

Revenues from services to media companies, totaling 166 thousand euros, were primarily generated by services for some television programs aired by the TV companies, *MTV* and *LA7.* Other revenues were earned in Italy from the radio broadcasters, *RTL* and *Radio Company,* and from the *RAI*, and in Brazil from the broadcaster *Radio Globo*.

The first three months of 2005 also report initial turnover from activities carried out in the so-called *B2C* segment. Such activities involve the sale of products and mobile applications directly to final customers. The revenues generated in the first quarter of 2005 included 58 thousand euros posted by the Irish subsidiary, *Acotel Group (Northern Europe)* via the *Flycell* brand, and 36 thousand euros posted by *Info2cell.*

Revenues from the provision of corporate services totaled 70 thousand euros and related entirely to activities carried out in Italy by *Acotel S.p.A.*

Revenues from the development of software applications derived from relations with *Acea S.p.A.*, which are governed by a contract signed by *Acotel Group S.p.A.* in 2004. This agreement covers the startup and maintenance of the platform supplied in previous years and software applications, both developed and to be developed, as well for training of *ACEA* personnel so that the customer can manage the platform unaided.

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

(thousands of euros)

(thousands of euros)	**Q1 2005**	**%**	**Q1 2004**	**%**
ITALY	2,999	57.1%	3,164	78.5%
EUROPE	381	7.3%	371	9.2%
MIDDLE EAST	732	13.9%	497	12.3%
LATIN AMERICA	593	11.3%	-	-
ASIA	321	6.1%	-	-
AFRICA	225	4.3%	-	-
	5,251	**100%**	**4,032**	**100%**

The geographical breakdown of revenues for the first three months of 2004 confirms the Group's commitment to internationalizing its revenue sources. The proportion of the Group's revenues generated in Italy has in fact fallen from 78.5% in the first quarter of 2004 to 57.1% in the first quarter of 2005, due to the recovery in turnover posted by *Acotel do Brasil* and to the increase in revenues posted by *Info2cell, Jinny Software* and the newly incorporated *Acotel Group (Northern Europe).*

Operating costs

Purchases of goods and services and lease expense

This item includes the following:

(thousands of euros)	Q1 2005	Q1 2004
raw and ancillary materials and consumables	351	60
service costs	2,316	1,793
lease expense	363	348
Total	**3,030**	**2,201**

The *costs of raw and ancillary materials and consumables* mainly relate to materials used in the production of telecommunications equipment on the part of *Jinny Software* (321 thousand euros).

Service costs during the first quarter of 2005 amounted to 2,316 thousand euros compared with 1,793 thousand euros during the same period of 2004.
The main component of this item consists of the cost of information purchased from external providers, totaling 827 thousand euros and representing 36% of total service costs.
The next most significant item is consultants' fees, which totaled 281 thousand euros. Such fees include the cost of external professional, commercial, administrative, legal and technical services provided to Group companies in order to support technical and technological upgrades of operating systems and the development of services and equipment. This component also regards the cost of outsourcing certain administrative and legal functions.
Other components of service costs are travel expenses (182 thousand euros), directors' and statutory auditors' fees (157 thousand euros), advertising services (146 thousand euros), the purchase of SMS packages from telephone operators (104 thousand euros), the cost of taking part in marketing events, shows and fairs (99 thousand euros) and the cost of connection to land-based and satellite transmission networks used in the supply of value added services (74 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 buildings in which Group companies operate.

Labor costs

Labor costs break down as follows:

(thousands of euros)	Q1 2005	Q1 2004
wages and salaries	1,723	1,611
social security contributions	408	332
employee severance indemnities	104	83
other costs	173	166
Total	**2,408**	**2,192**

The following table provides a breakdown of the average number of employees by category for the first quarters of 2004 and 2005:

	Average Q1 2005	Average Q1 2004
Senior managers	17	17
Middle managers	28	25
White-collar and blue-collar	176	141
Total	**221**	**183**

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

	March 31, 2005	March 31, 2004
Italy	97	84
Ireland	21	19
Lebanon	34	31
France	4	4
Brazil	12	7
United Arab Emirates	16	12
Jordan	41	22
USA	5	5
Total	**230**	**184**

The increase in the Group's headcount, especially overseas, was a direct result of the increase in the activities of foreign subsidiaries and the Group's constant commitment to building and consolidating its presence outside of Italy.

Amortization, depreciation and write-downs

Details of these items are provided in the following table:

(thousands of euros)	Q1 2005	Q1 2004
amortization of intangible fixed assets	534	526
depreciation of tangible assets	158	307
provisions for doubtful accounts	13	-
Total	**705**	**833**

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 5 thousand euros, respectively.

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

Other expenses

This item amounted to 148 thousand euros during the first quarter of 2005, of which 85 thousand euros relates to indirect taxes owed by *Acotel do Brasil* in accordance with local legislation.
The remaining amount 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 278 thousand euros for the first quarter.

This result includes interest income of 266 thousand euros deriving from short-term investment of liquidity in bonds, mutual investment funds and repurchase agreements, and 47 thousand euros in net profits on foreign currency transactions. The total is stated net of interest expense on loans and financing, totaling 35 thousand euros.

Extraordinary income and expense

The item reports a net negative balance of 23 thousand euros for the first quarter 2005.

FINANCIAL REVIEW

RECLASSIFIED CONSOLIDATED INCOME STATEMENT

(thousands of euros)	Q1 2005	Q1 2004
Total revenues	5,438	5,284
Materials and service costs	3,164	2,229
Gross margin	**2,274**	**3,055**
Labor costs	2,408	2,192
EBITDA	**(134)**	**863**
	-2.46%	*16.33%*
Depreciation	158	307
Amortization	534	526
Provisions for doubtful accounts	13	-
EBIT	**(839)**	**30**
	-15.43%	*0.57%*
Net financial income (expense)	278	107
Adjustments to financial assets	-	-
Income (loss) from ordinary activities	**(561)**	**137**
	-10.32%	*2.59%*
Extraordinary income (loss), net	(23)	(13)
Income (loss) for the period	**(584)**	**124**
	-10.74%	*2.35%*
Income (loss) for the period	**(584)**	**124**
	-10.74%	*2.35%*
Minority interest	-	-
Group interest in income (loss) for the period	**(584)**	**124**
	-10.74%	*2.35%*

The Acotel Group's performance during the first quarter of 2005 reports a slight increase in revenues and a slight reduction in EBITDA compared with the same period of 2004. EBIT reports a negative balance of 839 thousand euros, compared with the positive balance of 30 thousand euros posted for the first quarter of 2004.

Due to financial management and extraordinary items for the period, the Group reports a loss of 584 thousand euros for the first quarter of 2005, compared with income of 124 thousand euros in the first quarter of 2004.

A comparison between the first quarter of 2005 and the first quarter of 2004 should take account of the agreement signed with the ACEA Group in March 2004. This agreement replaces all previous agreements between the two Groups and made it possible to post 1.2 million euros to the item "Other revenues" in the first three months of 2004. This amount represented the portion of the sale price for the ICT platform sold by Jinny Software to Voinoi S.p.A., which corresponds to the commitment to maintain the platform for 10 years following delivery. This amount was previously posted to "deferred income".

Revenues from sales and services by business segment

(thousands of euros)	Q1 2005	%	Q1 2004	%
SERVICES TO NETWORK OPERATORS	3,671	69.9%	3,400	84.3%
DESIGN OF ICT EQUIPMENT	960	18.3%	302	7.5%
DESIGN AND OPERATION OF SECURITY SYSTEMS	250	4.8%	268	6.6%
MEDIA SERVICES	166	3.1%	-	0.0%
B2C SERVICES	94	1.8%	-	0.0%
CORPORATE SERVICES	70	1.3%	62	1.5%
SOFTWARE DEVELOPMENT	40	0.8%	-	0.0%
	5,251	**100%**	**4,032**	**100%**

Value added services for network operators produced revenues accounting for 70% of the total and primarily refer to revenues generated by the supply of services by *Acotel S.p.A.* to *Telecom Italia Mobile S.p.A.* (2,494 thousand euros).
The increase of 271 thousand euros with respect to the same period of 2004 was essentially due to the recovery of activity on the part of *Acotel do Brasil*.
The business segment "Services to network operators" also includes revenues earned by the subsidiaries, *Info2cell*, totaling 374 thousand euros, and *Acotel Group (Northern Europe)*, totaling 264 thousand euros.

By means of its Irish-registered subsidiary, *Jinny Software,* the *Acotel* Group also acts supplied messaging platforms developed to open standards.
In addition to the sale of equipment and the concession of licenses, the commercial offering also includes ongoing support and technical assistance. Such services are supplied in return for periodic fees.
Revenues from the design, development and maintenance of messaging platforms totaled 960 thousand euros, compared with 302 thousand euros in the first quarter of 2004. The increase was essentially due improved sales through both channels and direct to market.

Revenues from security systems during the period totaled 250 thousand euros, down slightly from the 268 thousand euros reported in the corresponding period of 2004. These derive mainly from maintenance and assistance activities 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.

Revenues generated by services supplied to media companies, totaling 166 thousand euros, primarily regarded services relating to a number of television programs aired by *MTV* and *LA7*.

Revenues relating to the business segment "*B2C",* totaling 94 thousand euros, included revenues earned by the subsidiaries, *Acotel Group (Northern Europe)* and *Info2cell*, amounting to 58 thousand euros and 36 thousand euros, respectively.

Revenues from the provision of value added services to corporate customers during the first quarter of 2005 amounted to 70 thousand euros, up slightly from the 62 thousand euros of the first quarter of 2004.

Revenues from the "Software development" segment derived from relations with *Acea S.p.A*. on the basis of a new contract signed in 2004.

Operating costs report an increase in the cost of materials and external services, which rose from 2,229 thousand euros to 3,164 thousand euros.
The main factors behind this change were the increase in the costs of raw, ancillary and consumable materials (351 thousand euros compared with 39 thousand euros in the first quarter of 2004), the increase in the costs of purchasing content from providers outside the Group (827 thousand euros compared with 549 thousand euros in the first quarter of 2004), and the increase in the cost of advertising services and legal consultants' fees, which rose 112 thousand euros and 106 thousand euros, respectively.

Labor costs rose from 2,192 thousand euros in the first quarter of 2004 to 2,408 thousand euros in the first quarter of 2005 due to the increase in the Group's headcount, both in Italy and overseas.

Finally, financial management made a greater contribution to the overall result.

Analysis of net debt

Net cash and cash equivalents as of March 31, 2005 amount to 32,222 thousand euros, representing an increase compared with the 31,325 thousand euros reported as of December 31, 2004.

Gross investment in fixed assets

The value of gross investment carried out by the Group during the first quarter of 2005 totaled 92 thousand euros as regards intangible fixed assets, 161 thousand euros as regards tangible fixed assets and 690 thousand euros as regards long-term financial assets.
The increase in tangible fixed assets is essentially connected to the normal process of renewing equipment used in operations.
The increase in long-term financial assets was due primarily to the acquisition of treasury stock on the part of Acotel Group S.p.A.

ADOPTION OF INTERNATIONAL ACCOUNTING STANDARDS

As part of the adoption of International Accounting Standards (now called IFRS – International Financial Reporting Standards), the Acotel Group has completed the final stages of the design and diagnostic phase and begun the actual process of converting its accounts and accounting policies.

The diagnostic and design phases aimed to identify and quantify the differences between the accounting standards adopted by the Group and international ones and to define the technical and functional specifications necessary for conversion. The current phase involves the actual adoption of international accounting standards in accordance with the procedures established by IFRS1 - First Time Adoption of International Financial Reporting Standards - and implementation of all the necessary actions (involving business and IT processes, etc.) in readiness for adoption of the new standards.

SUBSEQUENT EVENTS

In the period between April 1, 2005 and the date of this report no significant events have taken place.

OPERATING OUTLOOK

For information regarding the Group's operating outlook, reference should be made to the Report on Operations forming part of the Group's Annual Report for 2004.