

■ First-quarter report to 31 March 2004

■ **Directors and Statutory Auditors**

■ **Board of Directors**

Chairman and CEO

Renato Soru

CEO

Ruud Huisman

Directors

Franco Bernabè

Victor Bischoff

Tomaso Barbini

Massimo Cristofori

■ **Board of Statutory Auditors**

Chairman

Aldo Pavan

Statutory Auditors

Piero Maccioni

Massimo Giaconia

Deputy Auditors

Andrea Zini

Rita Casu

■ **Independent Auditors**

Deloitte & Touche SpA

■ Highlights

Total consolidated revenues came in at EUR 267.1 million, up 26% on the first quarter of 2003, and 7% ahead of the previous quarter.

ADSL user numbers increased sharply to 1,240,000 at 31 March 2004, an increase of 48% on the 840,000 customers registered at the end of 2003.

Active users totalled 8 million, thanks to steady growth in the broadband customer base.

Investment in unbundled local loops began in Italy and France during the quarter. Over 50% of ADSL customers in the Netherlands and 80% in Denmark subscribe to the unbundled service, which generates far higher operating margins than the group average, at around 70%.

First-quarter EBITDA stood at EUR 23.9 million (8.9% of revenues), an increase of 53% on the EUR 15.6 million generated in 1Q03.

The EBIT result improved to EUR -27.2 million, from EUR -66.2 million in the same period of 2003.

The group made a pre-tax loss of EUR -52.1 million, a substantial improvement on the EUR 85.3 million loss recorded in the previous quarter.

Net debt stood at EUR 341.1 million at 31 March 2004, while cash and cash equivalents totalled EUR 253.7 million.

■ Report on operations

■ The Tiscali stock

Tiscali is listed on the STAR segment of the Milan Nuovo Mercato (TIS), and on the Paris Nouveau Marché (005773). At 31 March 2004 its market capitalisation was EUR 1,757 million.

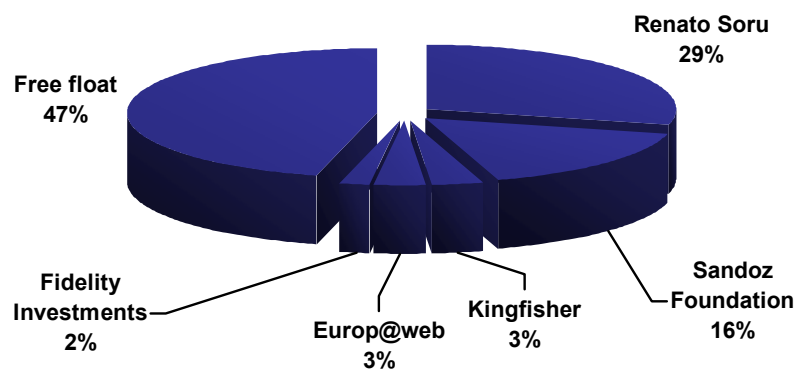
Tiscali has retained its position as the most highly-capitalised company on the Nouveau Marché.

At 31 March 2004 Tiscali's share capital comprised 372,858,515 shares, compared with 368,920,427 at the end of 2003.

The table below lists the capital increases carried out during the first quarter.

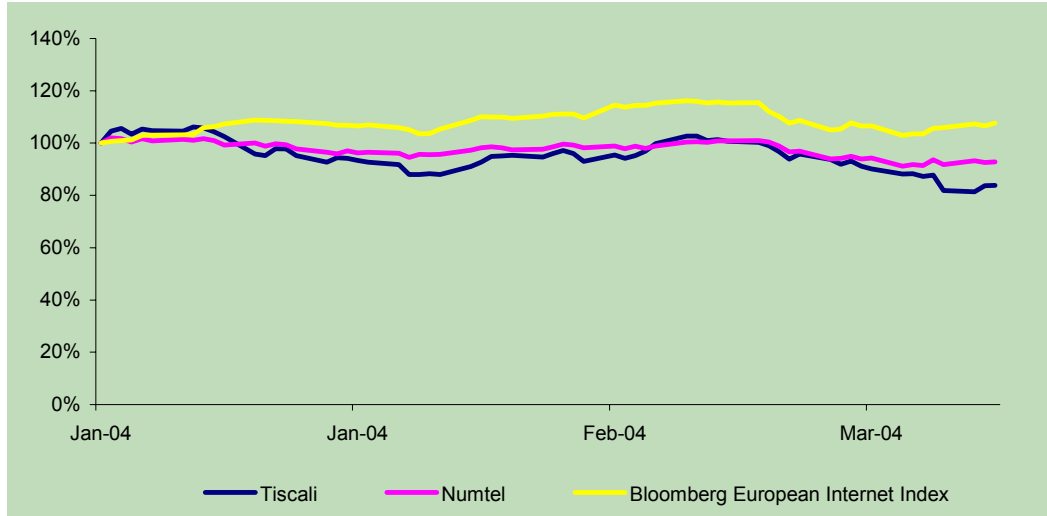
Date	Description	Shares issued	Share capital
24 Feb 04	Capital increase subscribed by way of contribution in kind of the entire share capital of Eunet EDV und Internet Dienstleistungs AG	3,604,899	372,858,515
17 Feb 04	Capital increase subscribed by way of contribution in kind of the entire share capital of Home.se AB	333,189	369,253,616

The chart below shows Tiscali's shareholder base at 31 March 2004.

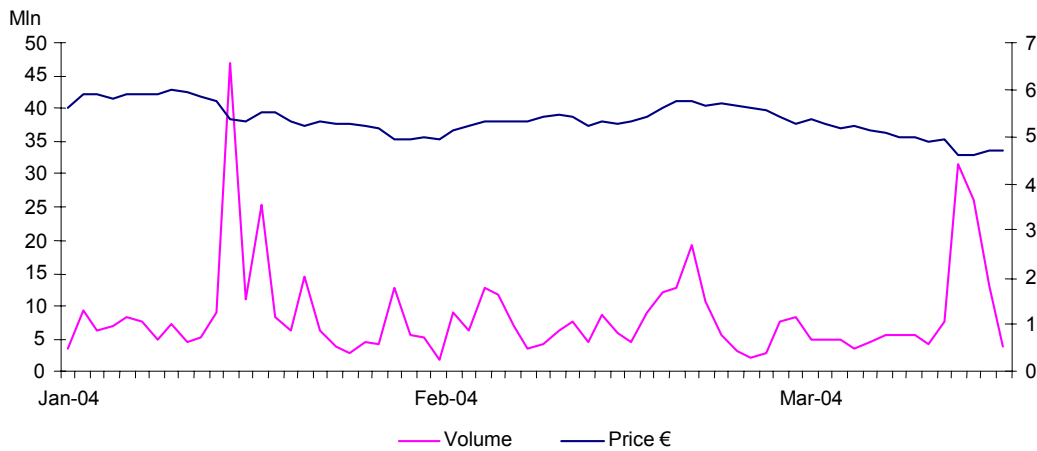


Source: Tiscali

In the first quarter of 2004, the Tiscali stock performance was in line with the Numtel index, but underperformed the Bloomberg European Internet Index.



An average of 8.4 million Tiscali shares were traded daily in the first quarter. The average daily value of trades was EUR 45 million.



Source: Bloomberg

Average daily volumes on Tiscali's two markets

Number of shares

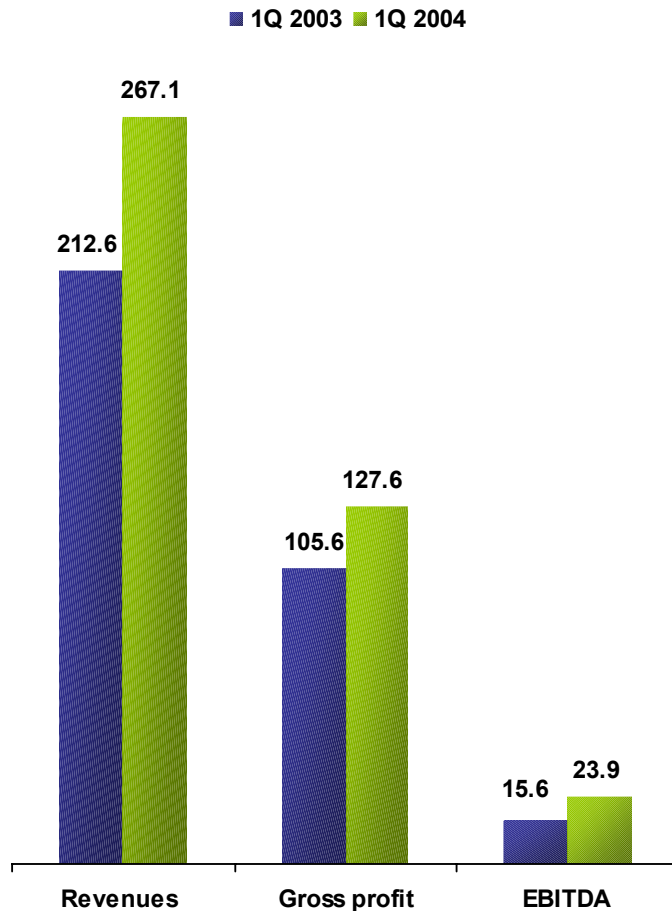
Date	Nuovo Mercato		Nouveau Marché		Total	
	No. of shares	in %	No. of shares	in %	No. of shares	in %
Jan-04	9,598,341	99.78%	20,737	0.22%	9,619,077	100%
Feb-04	7,102,954	99.79%	14,760	0.21%	7,117,713	100%
Mar-04	8,589,810	99.81%	16,332	0.19%	8,606,143	100%
Daily average	8,430,368	99.80%	17,276	0.20%	8,447,644	100.00%

Source: Bloomberg

Tiscali group: key figures

The group posted first-quarter revenues of EUR 267.1 million, up 25.6% versus the first quarter of 2003 and 7% ahead of the previous quarter.

The group had 8 million active users, with broadband customers accounting for an increasing proportion: ADSL user numbers soared by 400,000 in the quarter, to 1.24 million. Growth continued in April, when some 80,000 new users signed up, bringing the total number of broadband customers to 1.32 million at 30 April 2004. Tiscali also has 6.8 million active dial-up users. Around half of the group's ADSL customers in the Netherlands (70,000) and over 80% in Denmark are now receiving the unbundled service. An increasing number of customers are expected to receive unbundled services once they are launched in Italy and France in the second half of 2004.



The number of unique visitors to the Tiscali portal also grew, to 19.8 million in March (source: Nielsen/Netratings), confirming Tiscali as one of Europe's biggest web properties.

The strong growth in ADSL user numbers, most of whom receive wholesale services, boosted gross profit by 21% to EUR 127.6 million. The gross margin narrowed slightly to 48%, versus 50% in 1Q03 and 51% in 4Q03. However, the gross margin should improve significantly from the second quarter, as more ADSL customers receive unbundled services in line with the group's strategic plan.

First-quarter EBITDA improved sharply to EUR 23.9 million, versus EUR 15.6 million in 1Q03, although it was down on the EUR 27.6 million posted in the last quarter of 2003.

Consolidated P&L (EUR 000)	31.03.2004	31.03.2003	31.12.2003
	3 mths	3 mths	12 mths
Revenues	267,068	212,512	901,022
Value of production	267,068	212,512	901,022
Cost of goods and services	(206,110)	(163,137)	(684,227)
Personnel costs	(37,055)	(33,738)	(142,066)
EBITDA	23,903	15,637	74,729
Depreciation and write-downs	(35,103)	(40,981)	(154,560)
Goodwill amortisation	(14,278)	(37,370)	(72,063)
Other provisions	(1,679)	(3,498)	(76,976)
EBIT	(27,157)	(66,212)	(228,870)
Financial income (charges)	(10,102)	(7,527)	(19,840)
Extraordinary income (charges)	(14,836)	(11,603)	(46,856)
Gross profit	(52,095)	(85,342)	(295,566)

The access business remains Tiscali's main revenue driver thanks to increasing demand for broadband services, which brought in EUR 68 million in the first quarter, accounting for 37.7% of total access revenues. This was an increase of 62% on the EUR 42 million registered in the fourth quarter of last year.

Access revenues totalled EUR 180.9 million in 1Q04 (67.7% of total revenues), up 10.6% on the previous quarter and 22% ahead of the first quarter of last year (EUR 148.3 million). Growth was mainly organic, thanks to the sharp rise in the number of ADSL subscribers.

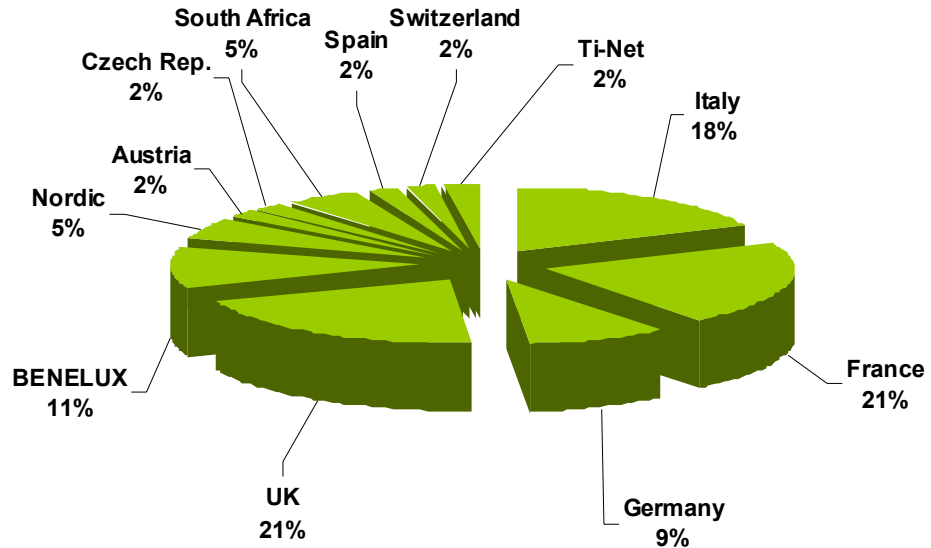
Revenues from business services were EUR 52.1 million (20% of the total), up 52% on the first quarter of 2003 and 4% higher than in 4Q03, thanks to the expanded basis of consolidation and synergies arising from the integration of the businesses acquired in 2003. This business area has now become Tiscali's second biggest revenue source, and offers strong synergies with the B2C market.

Portal revenues came in at EUR 11.4 million (4.3% of revenues), a slight dip on both the previous quarter and the first quarter of 2003. The result reflects Tiscali's decision to stop selling advertising space linked to "diallers" (programmes hidden in banner ads that connect to the internet at a premium rate and can often lead to unexpected increases in connection charges for the user). This decision represents an important step forward by Tiscali in the area of security and customer protection. The first

quarter also saw the company confirmed as one of Europe's leading web properties, with over 19 million unique visitors in March 2004, a 30% increase on March 2003.

Voice revenues came in at EUR 20.9 million (7.8% of total revenues), a decline of 1.1% on the previous quarter, but a rise of 34.2% compared with the same period of last year. The substantial advance in voice revenues compared with last year was due to both organic and external growth, following the inclusion of npower in the basis of consolidation from September 2003.

Consolidated revenues (EUR 000)	31.03.2004	31.03.2003	31.12.2003	31.12.2003
	3 months	3 months	3 months	12 months
Access	180,920	148,253	163,604	612,933
Voice	20,954	15,604	21,188	70,394
Business	52,115	34,205	50,179	161,240
Portal	11,381	11,982	12,373	47,222
Other revenues	1,698	2,468	1,773	9,233
Total revenues	267,068	212,512	249,117	901,022



■ Revenues by country

The chart above shows that 80% of revenues is generated in Europe's five main markets. In the first quarter of the year, the contribution from each of these markets remained stable, with Italy accounting for around 18% of revenues, France and the UK for 21% each, the Netherlands for 11% and Germany for 9%.

Tiscali International Network, which sells bandwidth and services to other operators and large multinationals, accounts for an increasing portion of group revenues. It is active throughout Europe, with offices in France, Spain, Italy and the Netherlands.

■ Gross margin and operating costs

In the first quarter, Tiscali posted a gross profit of EUR 127.6 million. The gross margin was 48%, versus 51% the previous quarter, and 49.7% in 1Q03. This result was affected by the lower profitability of broadband services, which recorded significant growth over the quarter.

Operating costs came to EUR 103.7 million, and although they rose 15% year on year, they fell as a percentage of revenues, from 42% to 39%. They also increased somewhat versus the previous quarter, but again fell as a percentage of revenues.

Sales and marketing costs increased from EUR 37.6 million in 4Q03 to EUR 40.5 million in the first quarter of 2004 (15.1% of revenues). This rate of growth was broadly in line with the increase in revenues.

Personnel costs fell slightly versus the previous quarter, from EUR 37.3 million to EUR 37.1 million, although this represented an increase compared with the same period last year (EUR 33.7 million). As a proportion of revenues, these costs fell from 15.9% in 1Q03 to 13.9% this time.

At 31 March 2004, the Tiscali group had 3,164 employees, down from 3,226 at end-December 2003, due to the restructuring under way at the French subsidiaries.

General and administrative costs totalled EUR 26.1 million for the quarter (10% of revenues), largely unchanged from the previous quarter and the same period of 2003.

The cost savings achieved in previous years have produced an efficient operating cost structure able to support the company's growth.

First-quarter EBITDA was up 53% at EUR 23.9 million, from EUR 15.6 million in 1Q03, while the EBITDA margin expanded from 7.6% to 8.9% in the same period. The EBITDA figure was lower than in the previous quarter (EUR 27.6 million), as the substantial rise in ADSL subscriber numbers—who largely receive the less profitable wholesale services—impacted on the gross margin.

Depreciation, amortisation and provisions totalled EUR 51.1 million, down from EUR 81.1 million in 1Q03 and EUR 105.3 million the previous quarter.

In particular, depreciation of tangible assets accounted for EUR 19.3 million, while amortisation of intangible assets was EUR 30.1 million, of which EUR 14.3 million related to goodwill.

The loss at EBIT level more than halved to EUR 27.2 million (+59%) from EUR -66.2 million in 1Q03, and improved by 65% compared with the previous quarter (EUR -77.7 million). The improvement was due to the reduction in goodwill amortisation following the change in criteria for estimating its residual useful life.

The group made a pre-tax loss of EUR 52.1 million for the period, an improvement of 39% on 1Q03 (EUR -85.3 million) and 35% on 4Q03 (EUR -80.3 million).

■ Investment

Investment totalled EUR 27.5 million in 1Q04, of which around EUR 20.2 million was spent on tangible assets and EUR 7.2 million on intangible assets. EUR 12 million was invested in the roll out of infrastructure necessary to provide unbundled ADSL services in the Netherlands, France and Italy.

■ Balance sheet and financial position

Consolidated balance sheet highlights (EUR 000)	31.03.2004	31.12.2003	31.12.2002
Current assets	601,782	675,004	639,335
Non-current	1,010,377	986,257	1,052,170
Total assets	1,612,159	1,661,261	1,691,505
S-T liabilities	666,273	664,739	522,098
M-/L-T liabilities	570,088	570,966	523,379
Shareholders' equity	375,798	425,556	616,028
Total liabilities	1,612,159	1,661,261	1,661,505

As of 31 March 2004, the group's non-current assets were worth EUR 1,010.4 million.

At the same date, consolidated shareholders' equity stood at EUR 375.8 million.

The decrease in this figure is the result of the net loss made during the quarter (EUR 52.1 million) and capital increases carried out by the parent company (EUR 3 million).

The group's cash resources totalled EUR 253.7 million at the end of the quarter, including short-term investments ("other securities"). Net debt—excluding liabilities to other lenders of EUR 40.5 million—stood at EUR 341.1 million, compared with EUR 279.6 million at 31 December 2003.

Cash and debt position (EUR million)		short term	long term	total	
				31.03.2004	31.12.2003
a)	Cash	123.6	-	123.6	203.5
	Other financial assets				
	term deposits	53.5	-		51.8
	tax receivables and capital grants*	76.6	-		77.2
b)	Investments other than non-current assets	-	-	130.1	
c=(a+b)	TOTAL CASH AND CASH EQUIVALENTS	253.7	-	253.7	332.5
	Bonds due in July 2004	73.1	-		80.3
	Bonds due in July 2005	-	250.0		250.0
d)	Equity-linked bonds due in September 2006	-	209.5		209.5
	Telinco bonds	0.6	-		0.8
	Loans and other long-term debt	-	31.8		33.5
	Other short-term financial liabilities	29.8	-		38.0
e)	GROSS DEBT 1	103.5	491.3	594.8	612.1
f)	Liabilities to other lenders **	7	33.5	40.5	43.5
g=(e+f)	GROSS DEBT 2	110.5	524.8	635.3	655.6
h=(e-c)	NET DEBT 1	(150.2)	491.3	341.1	279.6
i=(g-c)	NET DEBT 2	(143.2)	524.8	381.6	323.1
l=(h-d)	PRO FORMA NET DEBT 1	(150.2)	281.8	131.6	70.1
	<i>(assuming full conversion of equity-linked bonds)</i>				
m=(i-d)	PRO FORMA NET DEBT 2	(143.2)	315.3	172.1	113.6
	<i>(assuming full conversion of equity-linked bonds)</i>				

* Tax refunds requested from the Treasury

** Payables to leasing companies

As of 31 March, net debt (including liabilities to other lenders) had risen by EUR 58.6 million, although the general trend is downward, with increases of EUR 25 million, EUR 20 million and EUR 14 million in January, February and March respectively.

The group plans to use part of its current cash resources to redeem the bond expiring in July 2004, while redemption of the bonds maturing in July 2005 should be financed out of existing resources or cash flow. However, the group has not ruled out the possibility of refinancing the bonds due in 2005, as part of its strategy to optimise its

financial structure, by using bank debt or via the equity, debt or venture capital markets.

■ Significant events since the end of the period

On 6 May 2004, the annual report and accounts for the year ending 31 December 2003 were approved at the shareholders' meeting of Tiscali SpA. A proposal to cover losses using the share premium reserve was also approved. In addition, two new members were appointed to the Board of Directors: Ruud Huisman and Massimo Cristofori (the group's current CFO).

Subsequently, on 13 May the Board of Directors appointed Ruud Huisman as Chief Executive of the Tiscali group, and authorised the Chairman to call an extraordinary shareholders' meeting (on a date to be determined) to approve an increase in the capital of Tiscali SpA, pursuant to paragraph four, section two of art. 2441 of the Italian civil code. The purpose of this operation is to provide the Tiscali group with additional financial flexibility through access to the capital markets.

■ Outlook

The group has confirmed the following targets for 2004:

- revenues of over EUR 1.2 billion, an increase of more than 30% versus 2003
- EBITDA margin at 11% of revenues
- over 1.6 million ADSL users
- investment at 10% of revenues
- net profit before extraordinaries in positive territory in 2005
- cash flow generation from the second half of 2004
- sale of assets in Switzerland, South Africa, Norway and Sweden to be completed by the end of the year

■ Parent company: key figures

Parent company: profit and loss account

Profit and loss highlights	31.03.2004	31.12.2003	Change
<i>(EUR 000)</i>	<i>3 months</i>	<i>3 months</i>	
Revenues	52,374	34,493	17,881
Value of production	52,374	34,493	17,881
Cost of goods sold	(47,162)	(35,349)	11,813
Personnel costs	(9,017)	(7,094)	1,923
EBITDA	(3,805)	(7,950)	(4,145)
Depreciation and amortisation	(7,826)	(5,372)	2,454
Other provisions	(661)	(-)	661
EBIT	(12,292)	(13,322)	1,030
Financial charges	(790)	(4,027)	(3,237)
Extraordinary items	(1,418)	(1,539)	(121)
Gross profit	(14,500)	(18,888)	(4,388)

Parent company revenues totalled EUR 52.4 million in the first quarter of 2004, an increase of 52% on the same period of 2003.

The loss at EBITDA level halved from EUR -7.9 million in 1Q03 to EUR -3.8 million in the first quarter of 2004 (+51%). The EUR 4.1 million improvement is largely attributable to intragroup revenues relating to activities co-ordinated by the parent company and services provided to subsidiaries.

Excluding corporate activities, EBITDA for the company's Italian activities was EUR -1.3 million. Net of adjustments required by IAS 17, EBITDA was positive at EUR 2 million, versus EUR 4.4 million in 1Q03.

■ Parent company: revenue breakdown

Revenues	31.03.2004	31.03.2003	Changes	% change
(EUR 000)	3 months	3 months		
Access	30,040	21,759	8,281	+38%
Voice	8,480	5,800	7,330	+46%
Business	2,058	2,065	(7)	-
Portal	2,092	3,451	(1,359)	-39%
Other revenues	9,704	1,419	8,285	+584%
Total revenues	52,374	34,494	17,880	+52%

Parent company revenues totalled EUR 52.4 million in the first quarter of 2004, an increase of 52% on the same period of 2003.

In particular, access revenues advanced by 38%, boosted by substantial ADSL growth and the migration of dial-up users to a single national number (702).

Revenues from voice services climbed by 46%, driven by both wholesale and retail traffic growth. The decrease in portal revenues is largely explained by the decision to stop selling advertising space to “dialler” service providers.

Dial-up minutes fell from 2.4 billion in the first quarter of 2003 to 1.9 billion, owing to the increasing popularity of ADSL. The number of active users remained flat at around 1.8 million. ADSL user numbers, meanwhile, soared by 253% from 48,000 at 31 March 2003 to 170,000 at end-March 2004.

“Other revenues” mainly refer to intragroup revenues invoiced by the parent company for services provided to other group companies.

■ Parent company costs and investments

The main cost items as of 31 March 2004 are set out below.

Line and port rental costs rose by EUR 8 million to EUR 13.6 million (26% of revenues), due to the increase in ADSL and FRIACO dial-up user numbers.

Traffic acquisition costs rose by EUR 0.5 million to EUR 10 million (19% of revenues), following an increase in voice traffic minutes and the number of 702 dial-up connections.

Advertising and publicity costs fell by EUR 0.6 million versus 1Q03, to EUR 3.9 million (7.4% of revenues).

Personnel costs rose by 29% from EUR 7 million in 1Q03 to EUR 9 million in the first quarter of 2004, following an increase in the headcount from 795 at 31 March 2003 to 885 as of 31 March 2004, and the introduction of a new company employment contract. As a proportion of revenues, these costs fell from 21% in 1Q03 to 17% this time.

Investments for the quarter totalled EUR 6.7 million, versus EUR 6.1 million in 1Q03. Specifically, intangible assets accounted for EUR 4.9 million (EUR 2.5 million in 1Q03), and tangible assets for EUR 1.8 million (EUR 3.6 million in 1Q03). Investments in intangible assets related to the purchase and development of software, while the portion spent on tangible assets related to the purchase of equipment (servers and routers) to expand production capacity.

■ Financial position of the parent company

Financial position	31.03.2004	31.12.2003	31.03.2003
<i>(EUR 000)</i>			
Cash and cash equivalents	4,369	3,718	7,363
Short-term bank debt	(19,993)	(31,820)	(31,659)
Short-term net debt	(15,624)	(28,102)	(24,296)
Medium-/long-term debt	(33,245)	(31,946)	(21,683)
Net debt	(48,869)	(60,048)	(45,979)

The parent company's financial position improved in the three months from 31 December 2003, thanks to VAT refunds received in January 2004.

■ Outlook

2004 should see expansion in broadband services, greater penetration of the business services market and a substantial rise in voice traffic, while the number of dial-up connections is expected to remain stable. With regard to broadband, investment in providing unbundled services in Italy in 2004 has now been approved.