ANNUAL REPORT
2003

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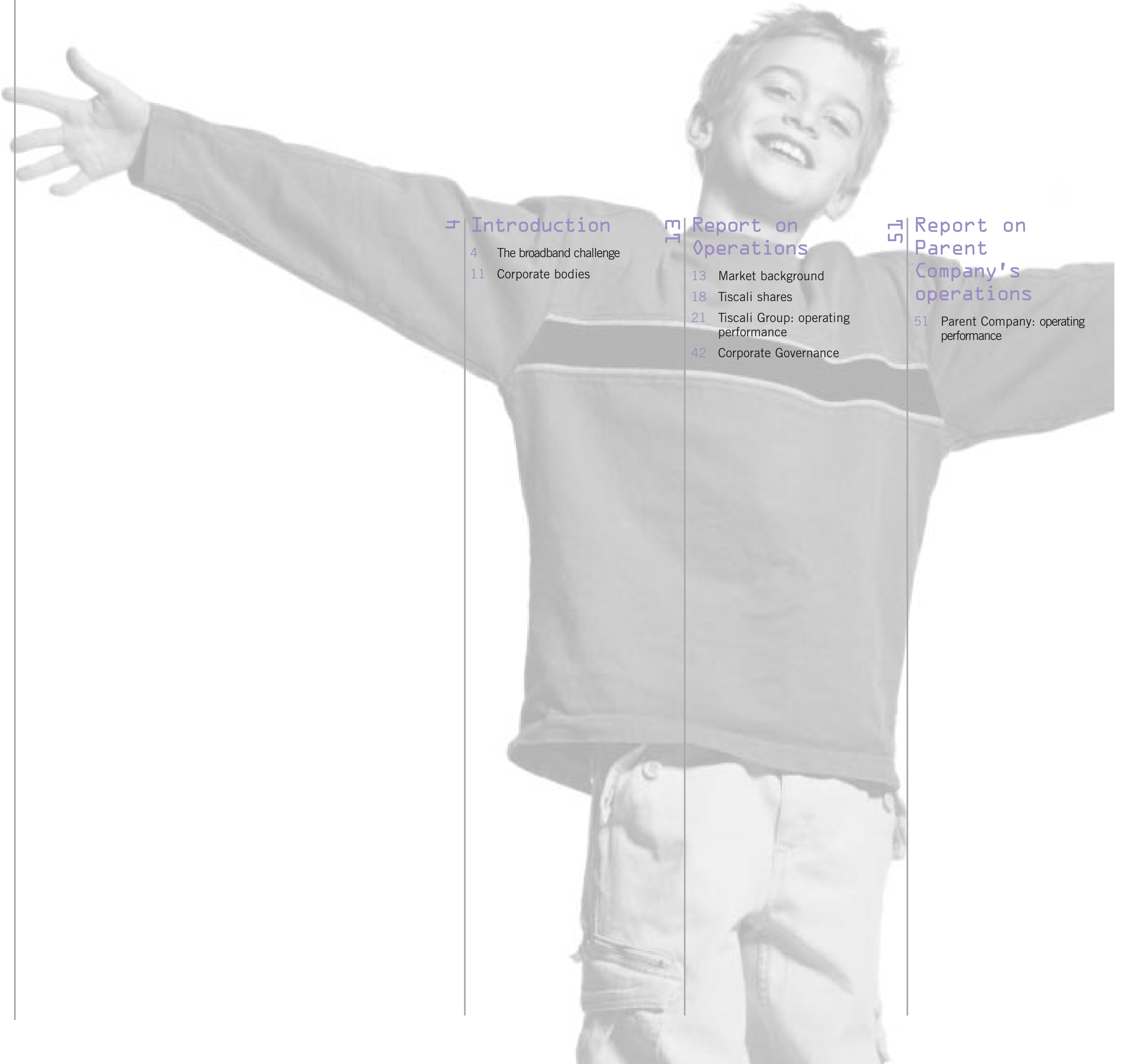
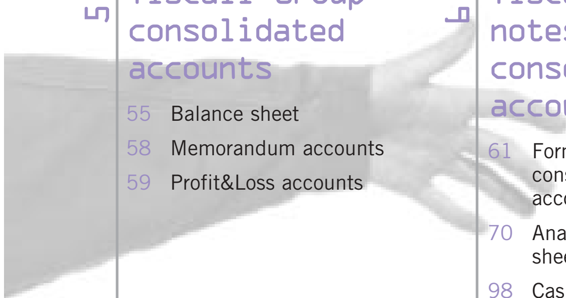




THE BROADBAND CHALLENGE

Background and trends

In 2003 the key trend in the Internet sector was the expansion of the broadband market, which saw growth of 73% versus 2002, representing an increase from 66 million to 71 million users and a total of 18 million connections in western Europe.

ADSL accounts for 70% of connections, and is therefore the dominant broadband technology used in Europe, ahead of alternative methods such as satellite and cable.

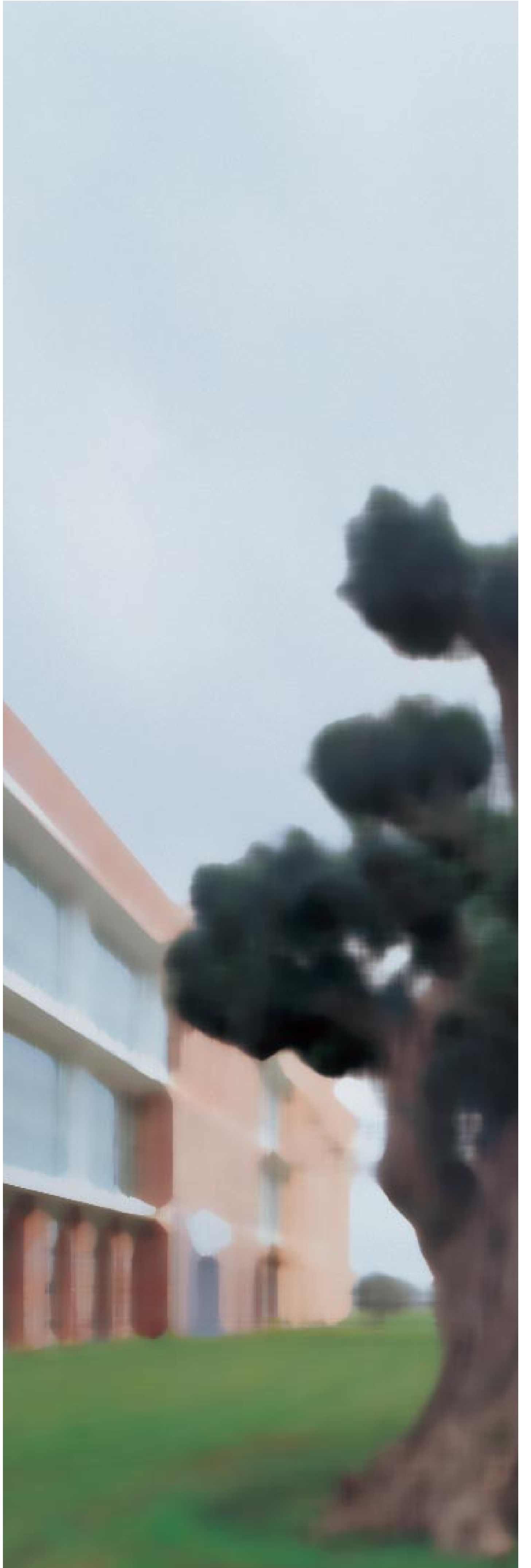
The battle led by OLOs (other licensed operator) such as Tiscali against the *de facto* monopoly position of former incumbent operators helped bring about the introduction of new regulations, which were issued by the EU in February 2003. The new regulations have opened up the broadband market, benefiting alternative operators and Internet users, who gained acces to a wide range of more attractively priced packages as a result.

Tiscali: the new opportunities offered by broadband

Tiscali has risen to the challenge of competing with former incumbents in the broadband arena and is expanding its share of the market very rapidly.

The Company's core values of passion, enthusiasm and determination, together with a strong customer focus, continue to advance its progress in this new market.

At the end of 2003, the Group had 840,000 ADSL users compared to 240,000 a year earlier, with an average of 20,000 new customers signing up every week. By the end of March 2004, the ADSL user base numbered 1,240,000, and new subscribers were joining up at the rate of 32,000 per week.



Tiscali: the cornerstones of an effective business model

Focus on five key countries

Tiscali has decided to focus its efforts on the five key markets that accounted for 90% of ADSL users at the end of 2003, and wich generate 80% of Group revenues: Italy, France, the UK and the Netherlands.

Unbundling the local loop.

To achieve success in the ADSL market, the Company must have an effective business model based on the provision of services through accessing the local loop with proprietary networks and technologies.

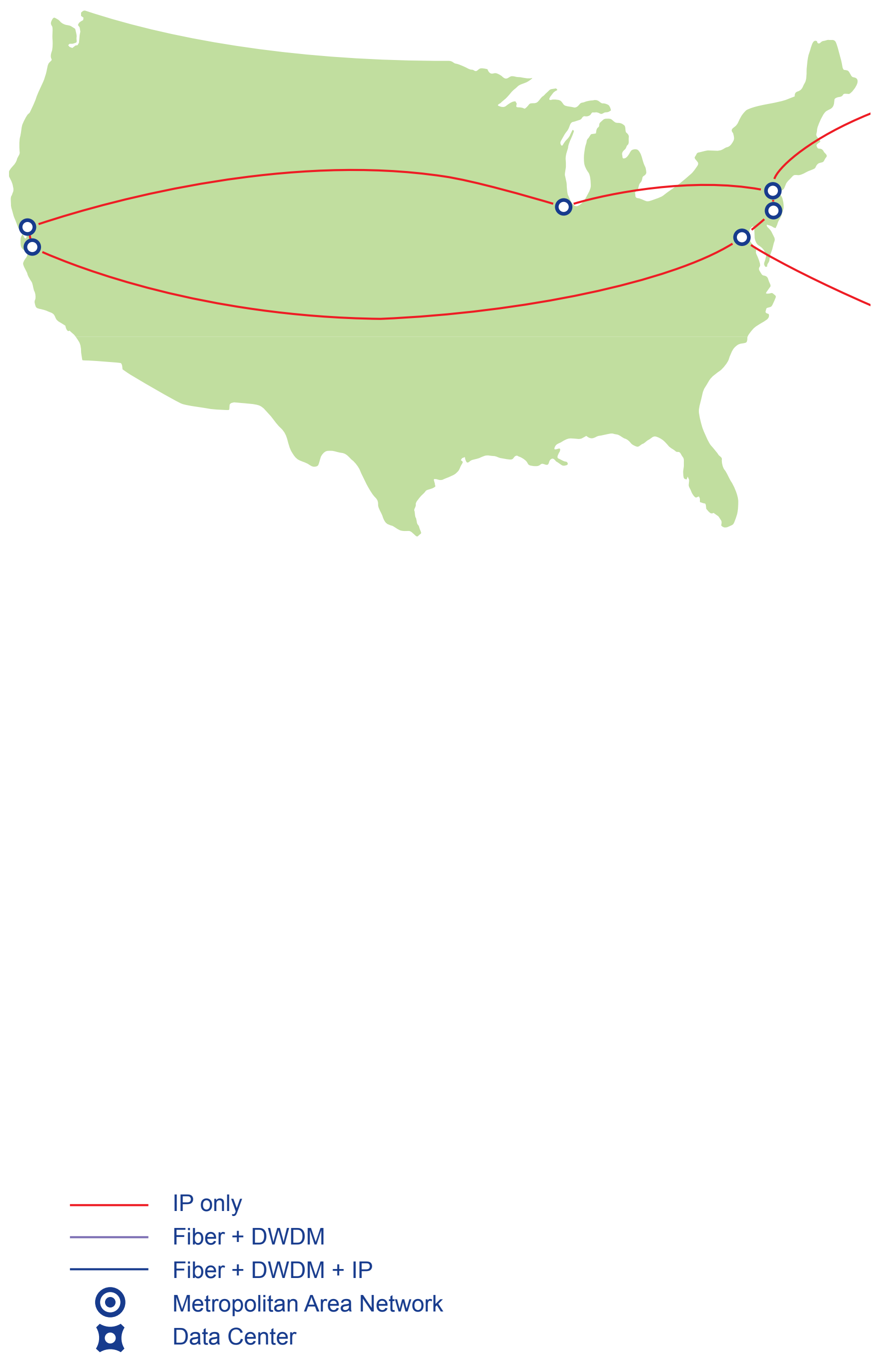
The strengths of this strategy are the high levels of profitability it delivers (gross margin of over 70%) and the vast potential for the provision of services and content.

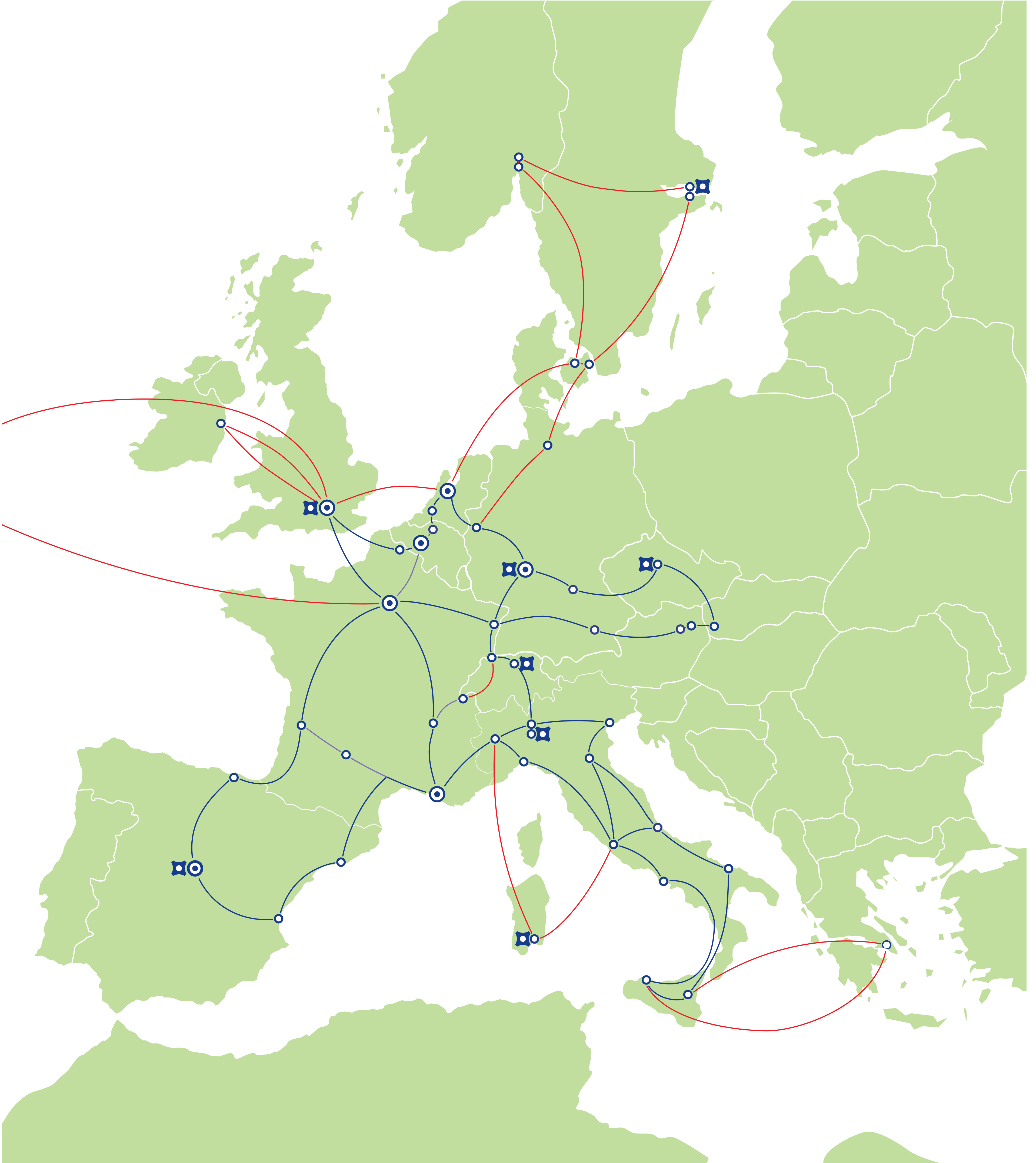
In particular, it enables the Company to offer "triple play" products, whereby ADSL customers can receive packages comprising Internet access, telephone and other services and content. These packages can achieve significant increases in aversge revenue per user (ARPU).

The Company's investments in unbundling are based on its technological know-how and substantial infrastructure, consisting of national networks that spread over 15,000 km of optical fibres and an international backbone that extends throughout Europe and as far as the US.

The ULL strategy rolled out on the Dutch market in 2003 is to be developed in France and Italy in 2004, and in Tiscali's other key markets at a later date.

INTERNATIONAL BACKBONE





Renato Soru
Chairman, CEO

VALUE THROUGH DIVERSITY

Ruud Huisman
CEO, ad interim
CEO Benelux and
Scandinavia

Massimo Cristofori
SVP & CFO

Pierpaolo Festino
SVP Marketing & Sales

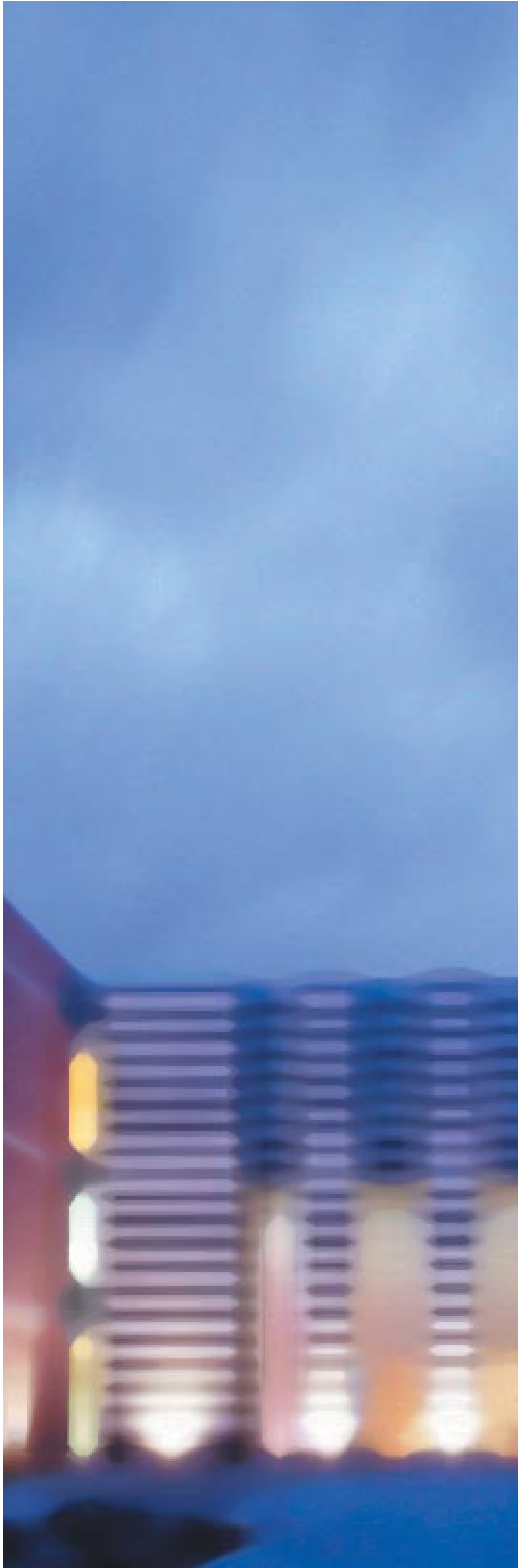
Stephane Huet
SVP Business Services

Mario Mariani
SVP Access & Media

Salvatore Pulvirenti
SVP & CIO

Paolo Susnik
SVP & CTO

Mauro Trichilo
SVP HR & Organization



Sergio Cellini
CEO Tiscali Italy

Naveed Gill
GM Tiscali
Czech Republic

Rafi Kouyoumdjian
CEO Tiscali France

Michele Lavizzari
GM Tiscali Spain

Pasquale Lionetti
CEO Tiscali Switzerland

Diego Massidda
CEO Tiscali
South Africa

Carl Müehlner
CEO Tiscali
Germany

Mary Turner
CEO Tiscali UK

DIRECTORS AND AUDITORS

Board of Directors

Chairman

Renato Soru

CEO

Rudolf Derk Huisman*

Directors

Tomaso Barbini
Franco Bernabé
Victor Bischoff
Massimo Cristofori**
Gabriel Pretre
Mario Rosso

The Board of Directors comprises the following committees:

- Internal Audit Committee (Victor Bischoff and Tomaso Barbini).
- Remuneration Committee (Mario Rosso, Renato Soru and Victor Bischoff)

Board of Statutory Auditors

Chairman

Aldo Pavan

Statutory Auditors

Massimo Giaconia
Piero Maccioni

Deputy Auditors

Rita Casu
Andrea Zini

Independent Auditors

Deloitte & Touche S.p.A.

* Appointed by Board of Directors on May 13th 2004
** Appointed by Shareholders Meeting on May 6th 2004

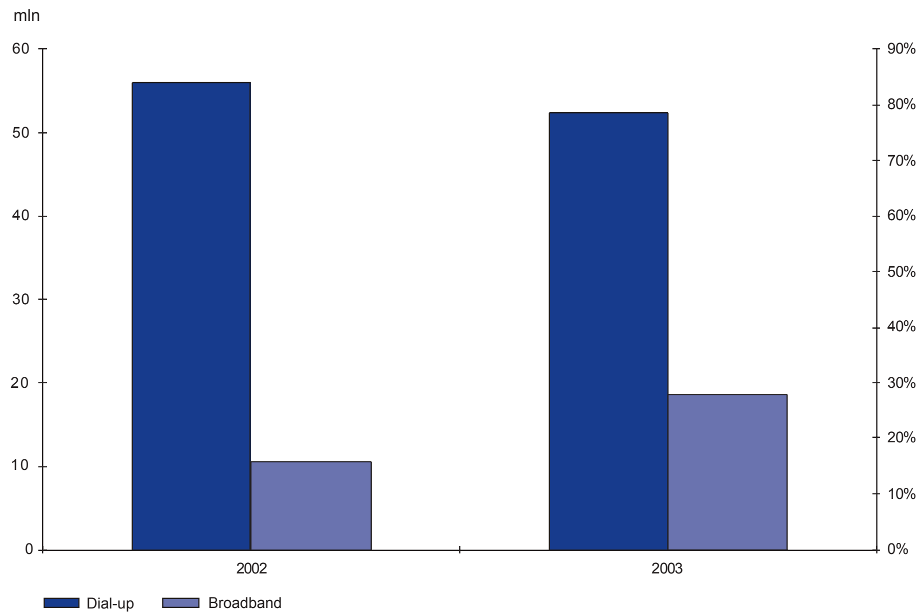
Market background

The residential Internet market

In 2003, the demand for broadband services rose significantly in the consumer segment of the European Internet market, outstripping growth in the number of dial-up connections, and consolidating the trend established in the second half of 2002.

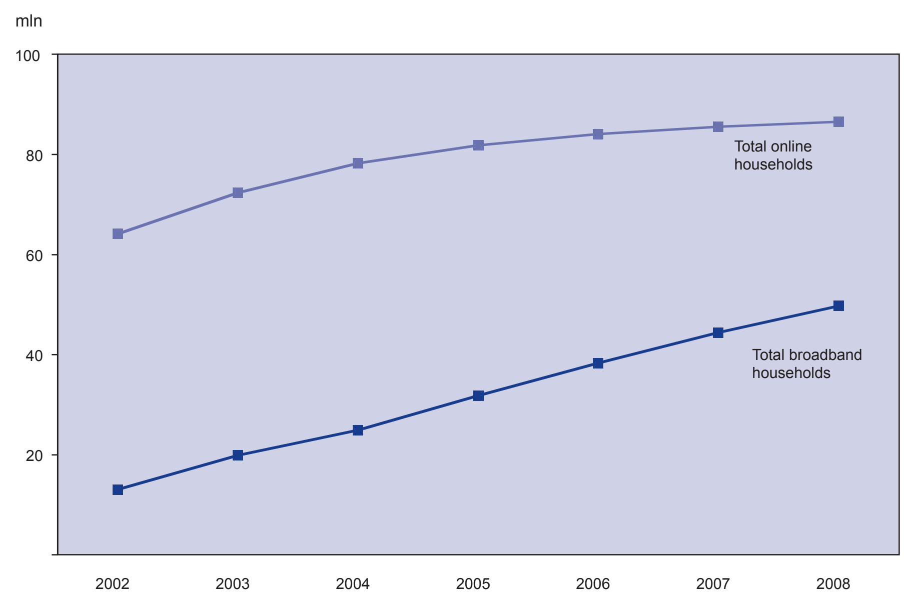
In western Europe, the number of active users rose from around 66 million at end-2002 to over 71 million at end-2003. Of these, in excess of 18 million have broadband connections, a rise of 72% on the previous year.

Internet connections in western Europe



Source: IDC, 2004

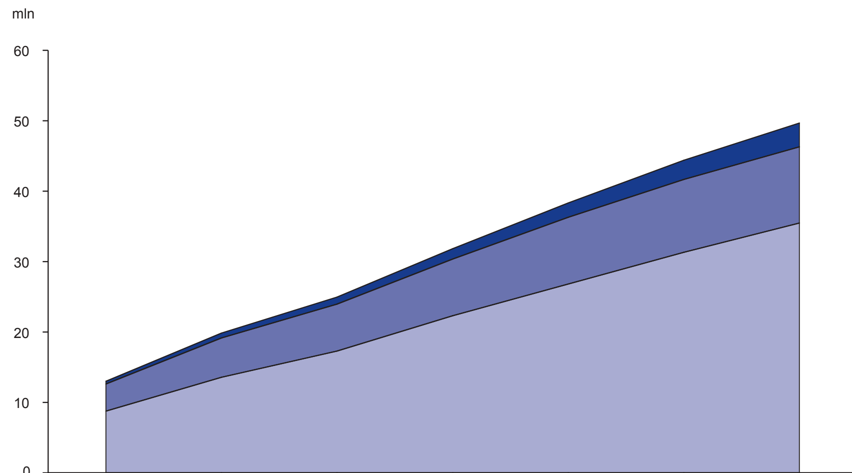
The broadband segment grew in line with expectations in 2003, and is expected to be the main growth driver on the Internet market over the next few years. Forecasts indicate that 30% of Europe's population will be using broadband services in 2008, compared to an average of just over 10% in 2003.



Source: Forrester

ADSL is expected to be the dominant technology in western Europe, providing Internet access via cable or alternative technologies (such as fibre, satellite and other networks). ADSL should account for over 70% of broadband connections in 2008.

Development of Internet technology in Europe



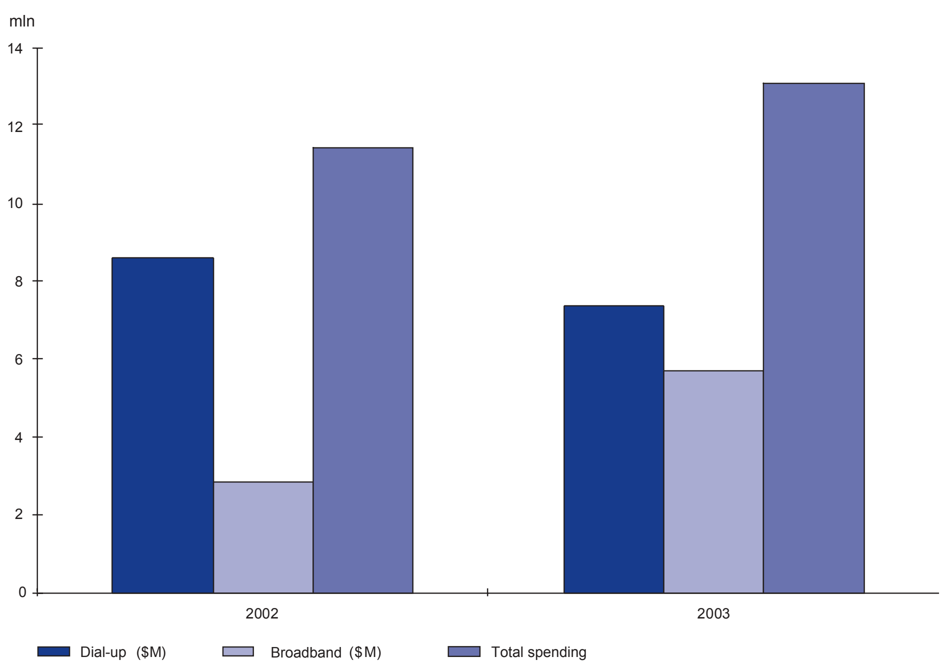
	2002	2003	2004	2005	2006	2007	2008
Other	392	666	967	1,490	2,043	2,724	3,402
Cable	3,831	5,597	6,661	8,051	9,474	10,373	10,813
ADSL	8,759	13,546	17,287	22,275	26,794	31,280	35,455

Source: Forrester

Broadband growth in Europe last year was driven both by dial-up users migrating to broadband, and by new demand from users with no previous experience of dial-up services. Although dial-up growth was modest and is expected to remain so over the next five years, it continues to attract new users and traffic to basic services such as e-mail, which do not require a particularly fast connection.

Spending on Internet access saw major variations in 2003 versus the previous year, with a 194% increase for broadband and a 15% drop for dial-up.

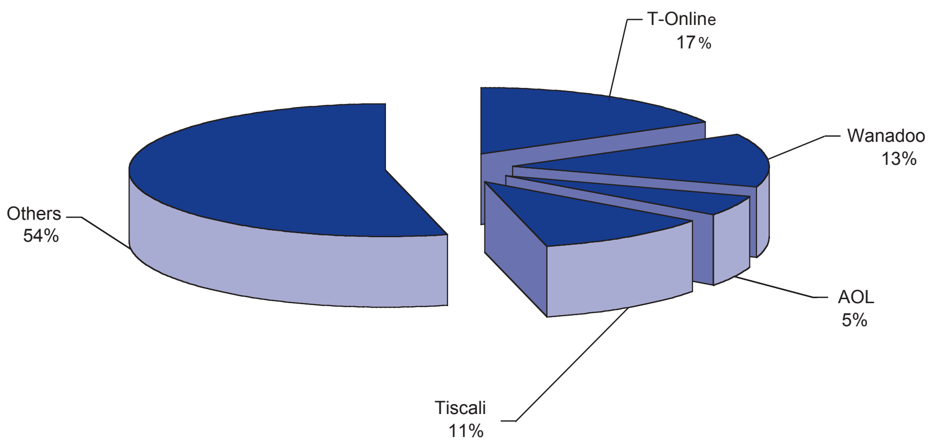
Internet spending in western Europe



Source: IDC, 2004

There was no significant change in the market shares of the main players in 2003: T-Online, Wanadoo and Tiscali remain Europe's leading Internet access operators.

Internet market shares as of 31.12.2003



Source: Tiscali

The plans announced by France Telecom and Telefónica to buy out minority shareholders in subsidiaries Wanadoo and Terra Lycos signal a significant new trend and reveal the strategic importance telecoms operators attach to the Internet access business.

Broadband market

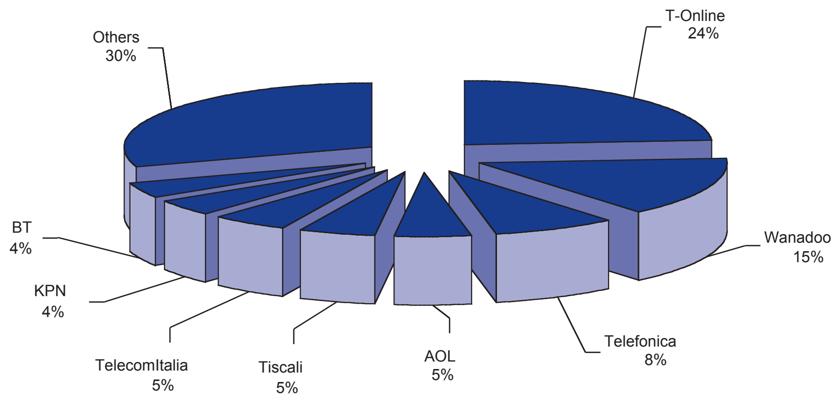
At the end of 2002 the broadband market still bore some of the hallmarks of a monopoly, although this changed somewhat last year, as the effects of EU regulations approved in February 2003 for implementation by July began to trickle through.

These regulations formalise the basic principle that national authorities (NRAs) must ensure other licensed operators (OLOs) can operate under fair and non-discriminatory conditions on the broadband market, and should not be at a disadvantage to former incumbents, which have a natural monopoly of the network.

This has eased the de facto monopoly in place when broadband was first available, and new operators such as Tiscali could not compete with the former incumbents on a level playing field.

According to statistics provided by ECTA (the European Competitive Telecommunications Association), the former incumbents provided 92% of DSL connections at end-2003. Although competition increased in Europe's main markets in 2003 (particularly in France, where several OLOs have emerged to challenge the dominant position of the former incumbent and its ISP), in Italy Telecom Italia's share of the broadband market was 68% at the end of the year.

European broadband market share as of 31.12.2003



Source: Tiscali chart using CMA Dataxis data

IDC expects the number of broadband users as a percentage of the total online population in western Europe to rise from 44% in 2003 to 53% in 2007.Note that growth in Internet penetration rates in western Europe vary significantly: in France, which saw the highest growth in broadband in 2003, the percentage of households online is expected to rise from 36% at end-2003 to 46% in 2007.This compares to projected rises from 47% to 53% in Germany and from 56% to 64% in the UK. Growth is expected to be higher in countries where Internet penetration rates are relatively low, such as the Czech Republic and Greece.

The broadband services market has become increasingly competitive, prompting a fall in average consumer prices compared to the previous year. Operators also introduced the kind of offers previously typical of dial-up services.

In some countries, the emergence of OLOs, including ISPs that were originally alternative carriers, has changed the face of the market, fuelling growth in the sector and creating an extremely competitive environment, both for basic access services and related services/content (voice, video, music, films and games).

OLOs such as Tiscali can access broadband business through:

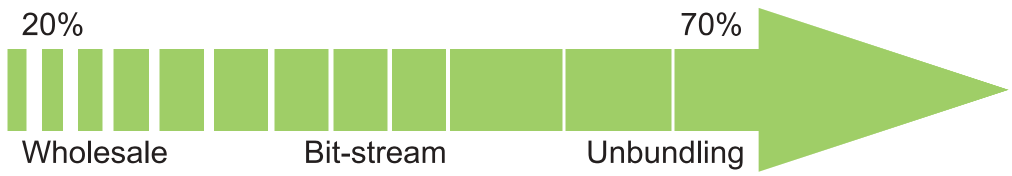
- the wholesale market, in which OLOs resell broadband access provided by the former incumbents. In this market, operators are unable to exploit the competitive advantage of owning proprietary networks—which squeezes margins—and they also have no control over the product offered to the user. Thanks to an improvement in the regulatory situation in Europe, profitability has increased, but is still unsatisfactory in many European countries;

- bit-stream, whereby interconnection to the network of the national telecoms operators is charged at cost. Bit-stream allows operators such as Tiscali to use their own networks, which means they only have to pay the national carrier for access to the local loop and backhauling services (transmission of traffic to the interconnection point). This tariff system is only available in France and the UK, where better conditions allow interconnection costs to be reflected fairly. The introduction of bit-stream would be beneficial in other European countries and would be in line with the European regulations approved on 23 February (“Recommendation on relevant product and service markets within the electronic communications sector susceptible to ex-ante regulation”);

- unbundled services, through which OLOs can access the local loop by investing in local networks. Unbundled services allow operators to expand their margins to over 70% and to control the quality of the service provided to final customers.

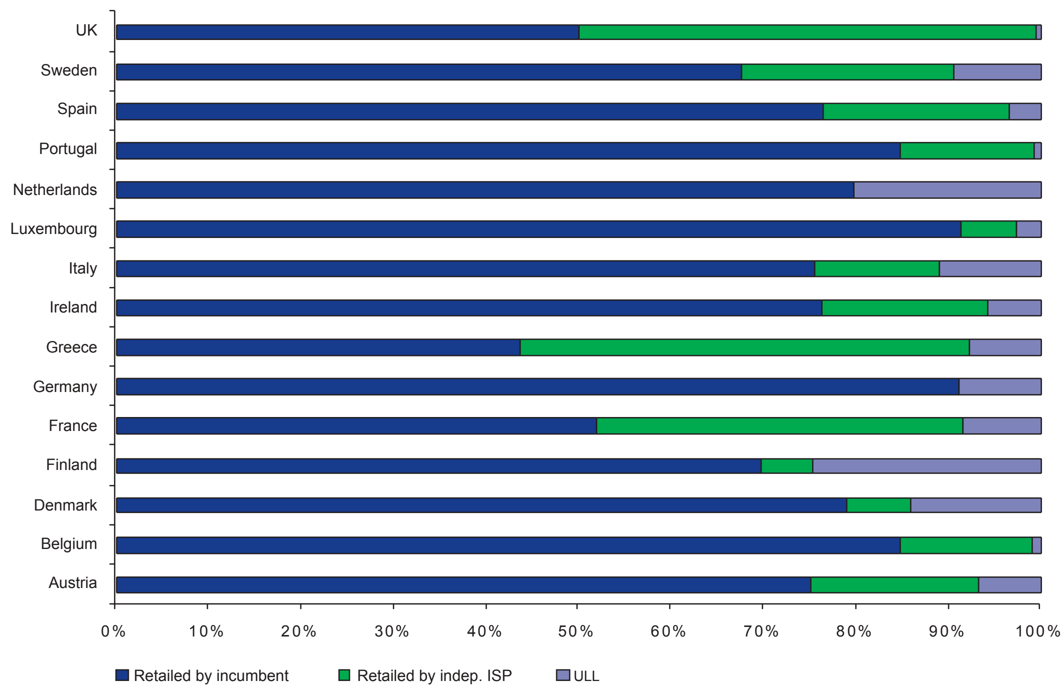
The diagram below shows the different margins offered by the three ways of accessing the broadband market.

Gross Margin offered by the three ADSL models - 2003



At end-2003, unbundled services accounted for 8% of total DSL connections. Unbundled services have grown significantly in France and the Netherlands, but are not so common in the UK, Belgium and Portugal, owing to both regulatory and structural factors.

DSL market



Source: ECTA, 2004

Tiscali shares

Tiscali shares are listed on both the Milan Nuovo Mercato (TIS) and the Paris Nouveau Marché (005773). Once again, Tiscali was the Company with the highest market capitalisation on the Nouveau Marché in 2003, and had one of the highest on the Nuovo Mercato, where it reached a peak of EUR 2,669 million on 1 December 2003. The total number of shares rose from 361,734,135 at 31 December 2002 to 368,920,427 at 31 December 2003. At end-March 2004, the total number of shares stood at 372,858,515.

The table below lists the capital increases carried out during the year:

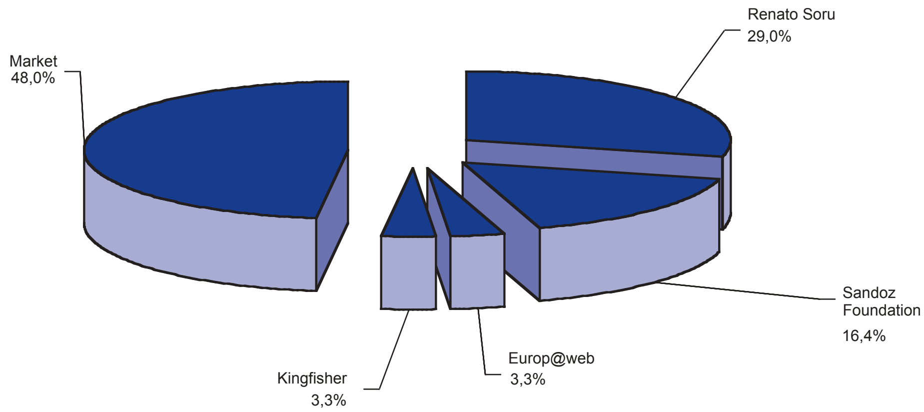
(the capital increases for the Eunet and Home acquisitions took place in 2004, but were approved in 2003)

DATE	DESCRIPTION	SHARES ISSUED	SHARE CAPITAL
24 Feb 2004	Capital increase to issue shares in exchange for the entire share capital of Eunet EDV und Internet Dienstleistungs AG	3,604,899	372,858,515
17 Feb 2004	Capital increase to issue shares in exchange for the entire share capital of Home.se AB	333,189	369,253,616
31 Jul 2003	Capital increase to issue shares in exchange for the entire share capital of Nextra S.p.A.	643,950	368,920,427
31 Jul 2003	Capital increase to issue shares in exchange for the Internet business of Airtelnet Movil S.A.	2,162,139	368,276,477
17 Jun 2003	Capital increase to issue shares in exchange for the Internet business of Wanadoo International S.A.	2,290,924	366,114,338
23 May 2003	Capital increase to issue shares in exchange for the entire share capital of Tiscali Internet Limited	152,380	363,823,414
20 May 2003	Capital increase to issue shares in exchange for the Internet business of VTL Inc	840,228	363,671,034
09 Apr 2003	Capital increase to issue shares in respect of the exercise of the third tranche of the Connect Software warrant	74,350	362,830,806
09 Jan 2004	Capital increase to issue shares in exchange for the acquisition of a further stake in Quinary S.p.A.	1,022,321	362,756,456

At the date of this report, the share capital was approved at EUR 197,009,462.00. The fully subscribed and paid-up share capital was EUR 186,429,257.50, divided into 372,858,515 ordinary shares with a nominal value of EUR 0.50 each.

The chart below shows Tiscali's shareholder base at 31 December 2003. There is no shareholders' agreement currently in existence.

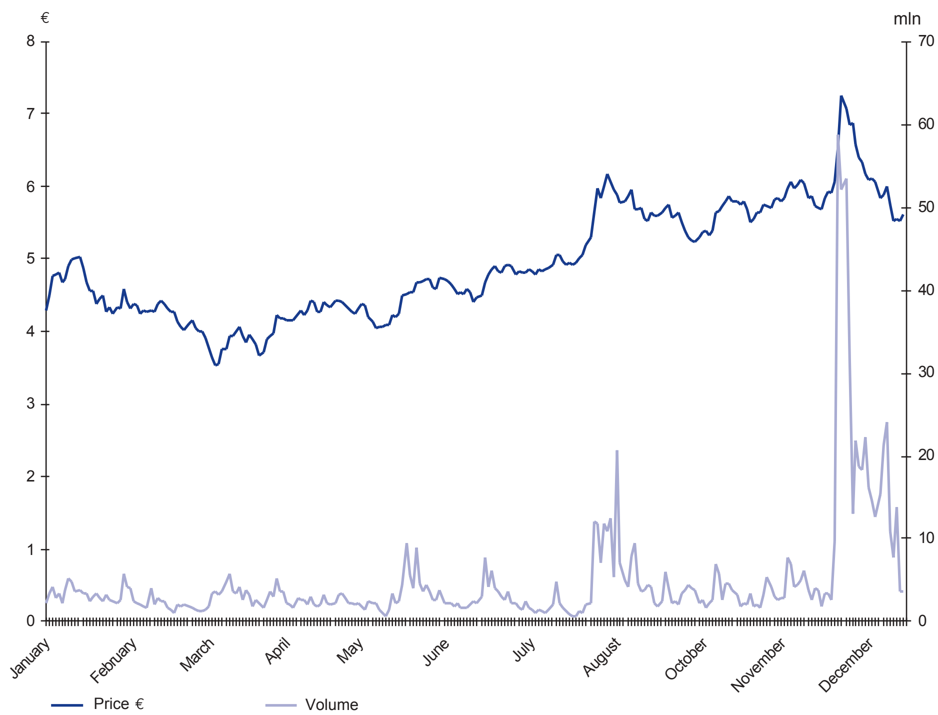
Shareholding structure



Fonte: Tiscali

In March 2004, investment fund Fidelity Investments informed Consob that it had obtained a stake of around 2% in Tiscali.

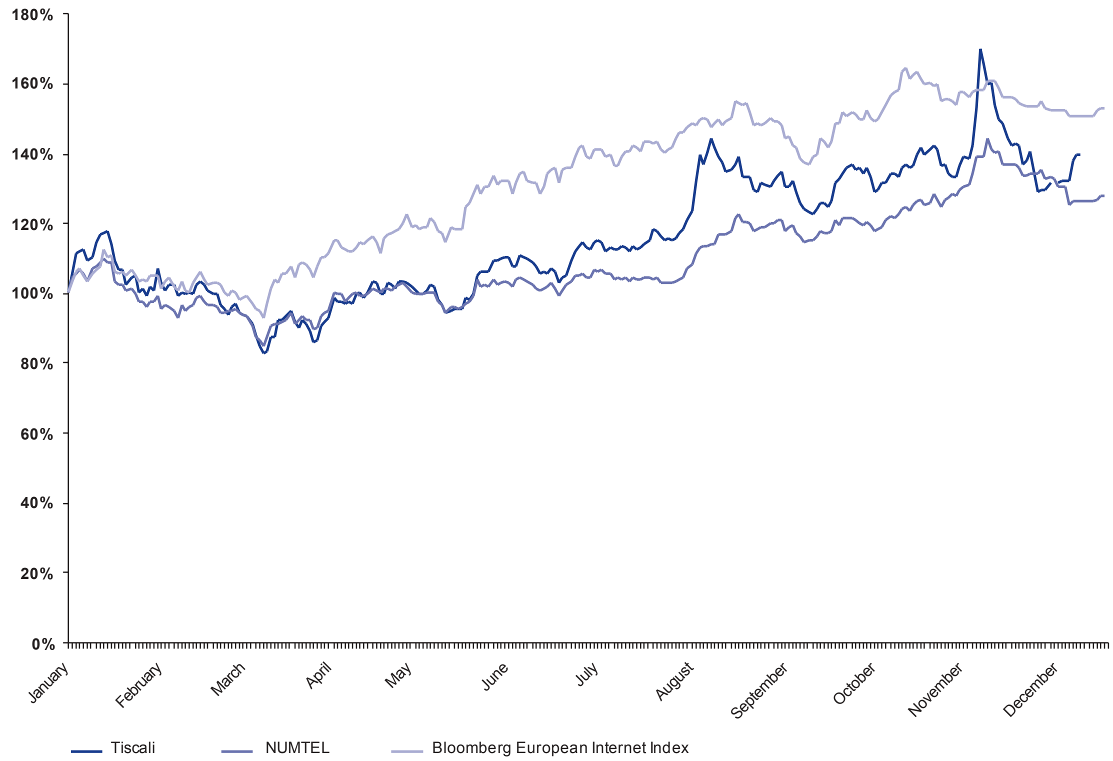
Tiscali shares rose by 31% in 2003, and reached a high of EUR 7.20 on 1 December 2003.



Source: Bloomberg

An average of around 4.7 million Tiscali shares were traded daily over the year, broadly in line with the figure for the previous year (4.5 million). The average daily value of trades was EUR 22.7 million. The monthly value of trades was EUR 2.4 billion in December, up 64% on the September figure. The value of trades for the year was EUR 6.5 billion, making Tiscali the most liquid stock on the Italian Nuovo Mercato and one of the most frequently traded Internet stocks in Europe.

The performance of the Tiscali stock over the year was in line with the Numtel index, but slightly down on the Bloomberg Internet Index, which includes Europe's main Internet stocks. Despite the lack of confidence due to world economic conditions, the value of the stock grew over the year, thanks to a strong set of results, particularly at EBITDA level.



Source: Bloomberg

Above-average daily volumes were recorded throughout December, with a peak of 58.5 million shares traded on 28 November 2003. The highest price of the year (EUR 7.20) was registered on 1 December, while the lowest (EUR 3.40) came on 12 March.

The Nuovo Mercato remains Tiscali's main market, accounting for 99.77% of total trades.

	NUOVO MERCATO		NOUVEAU MARCHÈ		TOTAL	
DATE	NO. OF SHARES	IN %	NO. OF SHARES	IN %	NO. OF SHARES	IN %
January 2003	3,056,821	99.87%	4,069	0.13%	3,060,889	100%
February 2003	2,305,031	99.73%	6,260	0.27%	2,311,290	100%
March 2003	2,719,402	99.71%	7,897	0.29%	2,727,299	100%
April 2003	2,500,580	99.76%	6,100	0.24%	2,506,680	100%
May 2003	1,988,456	99.55%	8,903	0.45%	1,997,359	100%
June 2003	3,387,675	99.88%	4,012	0.12%	3,391,687	100%
July 2003	2,514,171	99.70%	7,840	0.30%	2,521,652	100%
August 2003	5,463,499	99.82%	9,819	0.18%	5,473,318	100%
September 2003	4,042,548	99.78%	8,740	0.22%	4,051,288	100%
October 2003	3,064,987	99.78%	6,864	0.22%	3,071,851	100%
November 2003	6,795,475	99.82%	12,475	0.18%	6,807,950	100%
December 2003	19,534,058	99.88%	24,087	0.12%	19,558,145	100%
Daily Average	**3,056,821**	**99.87%**	**4,069**	**0.13%**	**3,060,889**	**100%**

Source: Bloomberg

Tiscali Group: operating performance

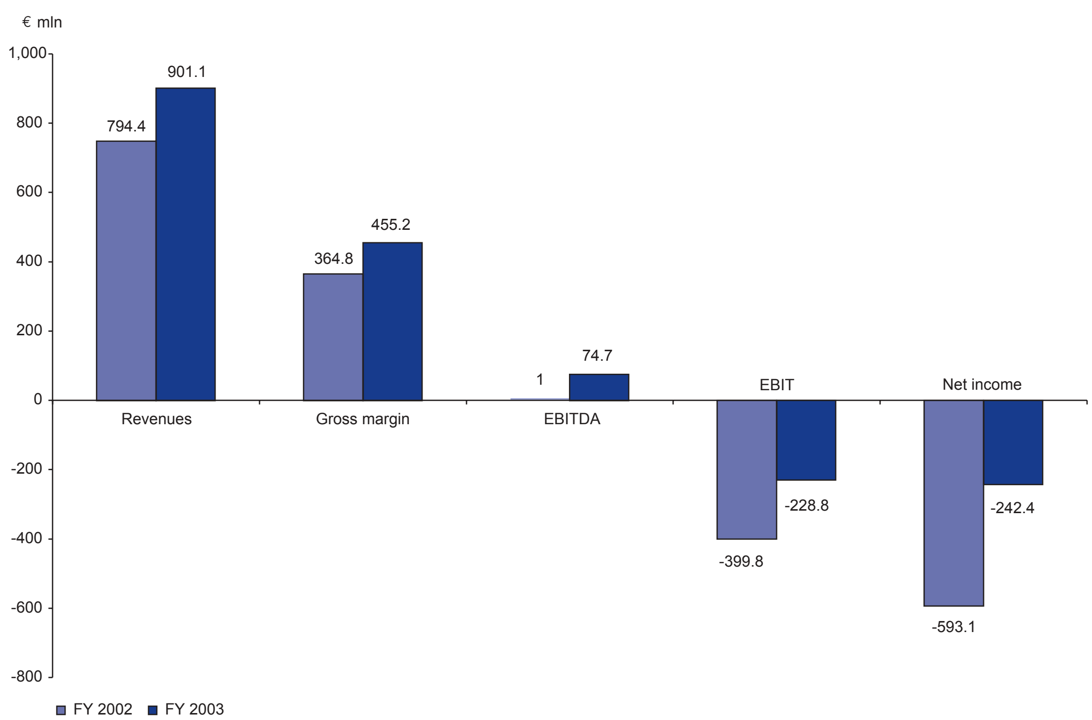
2003 was a year of consolidation for Tiscali, including the completion of the Group's reorganisation after the series of acquisitions made in 2000-2001. In addition, the significant increase in visibility of the business model in the European Internet sector has enabled the Group to focus on its targets, improving its planning activities both internally and externally.

In particular, Tiscali's strategic positioning changed: with seven million dial-up users throughout Europe, the Company has now established itself as a provider of broadband Internet access services. This was made possible by a significant improvement in the regulatory situation for this market in Europe and an effective and targeted sales policy.

Growth in the number of ADSL users accelerated in 2003, boosting access revenues. EBITDA also improved, and was positive for the fifth quarter in a row, while the EBITDA margin expanded to 8.2% year on year. The EBITDA figure improved in all of Tiscali's main markets, where the Group reported operating breakeven for the full year before depreciation and amortisation.

Tiscali has now achieved a critical mass of broadband customers, and given their potential in raising ARPU (average revenue per user), in 2003 the Group began to adopt a strategy of selective unbundling in the Netherlands and Denmark. Offering unbundled broadband enables Tiscali to control the quality of the service delivered to its customers and provide "triple play" packages of data, voice and content. The tariff structure of unbundled services means that the Group can substantially increase the profitability of Internet access (see earlier section on the broadband market).

Key Figures



Revenues rose by 20% on the previous year to EUR 901 million, driven by growth in the access business, particularly broadband services, which grew at a faster rate than the market average. Business services also contributed to the rise in revenues, following acquisitions in Italy, France and Austria carried out in early 2003

Gross profit was up 25% on the previous year at EUR 455.1 million, or 51% of revenues (49% in 2002). The figure was boosted by the substantial synergies generated by the Group's extensive network infrastructure and falling traffic acquisition and line rental costs. The result is even more significant given the increasing contribution from the broadband business, which in the wholesale market is less profitable than narrowband access (see earlier section on the broadband market).

Tiscali expects operating costs as a proportion of revenues to fall further in 2004, as revenues rise, and general, administrative and personnel costs remain broadly flat.

Operating costs break down as follows:

- **marketing costs** rose from EUR 122.8 million in 2002 (16% of revenues) to EUR 140 million at end-2003 (flat at 16%), following significant investment related to the launch of broadband services;
- **personnel costs** increased from EUR 140.1 million in 2002 to EUR 142.1 million at end-2003 (declining from 19% to 16% of revenues);
- **G&A costs** fell from EUR 100.9 million in 2002 to EUR 98.3 million at end-2003 (dropping from 13% to 11% of revenues).

Operating costs, at EUR 380.4 million, were up slightly on the previous year in absolute terms, but were down as a percentage of revenues, from 49% to 42%.

EBITDA was positive at EUR 74.7 million, or 8.2% of revenues, a huge increase on the EUR 1 million recorded in 2002.

The Group made an EBIT loss of EUR 228.9 million, although this was a 43% improvement on the loss of EUR 399.8 million posted the previous year.

Depreciation charges totalled EUR 95 million, while amortisation came to EUR 137.1 million, of which EUR 72 million related to goodwill (consolidation difference).

EBIT benefited from:

- changes in estimates of the remaining useful life of goodwill (or of the consolidation difference item relating to goodwill and shown under intangible assets), with the consequent extension of the amortisation period from five years (generally adopted prior to 31.12.2002) to 12 years;
- harmonisation at Group level of depreciation rates for plant and equipment, particularly IP and Ethernet network equipment (commercially known as routers and L3/L2 switches).

These changes reduced depreciation and amortisation by EUR 142 million, of which EUR 130 million relates to goodwill.

These structural changes, which led to the extension of the goodwill amortisation period, relate to the following specific circumstances:

- the current market conditions, both generally and in relation to specific regions, and market prospects. In addition, Tiscali has consolidated its business in each country in which it has a presence, and has boosted profitability as a result;
- the results posted by Group companies and their prospects as indicated in the business plan, which project a further significant improvement in the Group's financial situation, including free cash flow generation in the short to medium term;
- completion of the restructuring process and optimisation of the Group structure;

In respect of the extension of the amortisation period, an impairment test was carried out to update the valuation of the consolidation difference, based on an analysis of the value of the Group companies to which this item refers. This was carried out using a discounted cash flow calculation with data taken from the business plans for all business units in each country in which Tiscali operates. The results showed that the net book value of goodwill pertaining to different countries was much lower than the corresponding value derived from the methodology described above. In addition, the board of directors commissioned a report by an independent consultant, who confirmed that there was a significant difference between the value of goodwill estimated on the basis of the business plans for each business unit, and the book value of goodwill recorded for each business unit. The consultant also suggested that an amortisation period of between 10 and 15 years was sustainable for the Group.

Furthermore, from 2005 (but for comparative purposes, from the 2004 accounts), IAS/IFRS accounting principles will be applied, under which goodwill is no longer amortised. Instead, it is valued each year according to impairment test criteria, for the purposes of checking the book value and ascertaining whether any write-downs should be recorded. In this context, where there is a significant difference between the value of goodwill determined by the impairment test and its book value, it is considered appropriate to extend the goodwill amortisation period, as other companies in the sector have done.

Thanks to a strong business performance, Tiscali posted a sharp improvement in its bottom-line figure for the year. The Group made a net loss of EUR 242.4 million, a significant improvement on the loss of EUR 593.1 million posted in 2002.

This result was affected by:

- changes described above relating to the estimates of the remaining useful life of intangible (goodwill) and tangible assets, which reduced depreciation and amortisation by EUR 142 million, of which EUR 130 million relates to goodwill;

- the booking of deferred tax assets of EUR 51.6 million, relating to the subsidiaries/countries that made a pre-tax profit in 2003 (the Netherlands and South Africa).

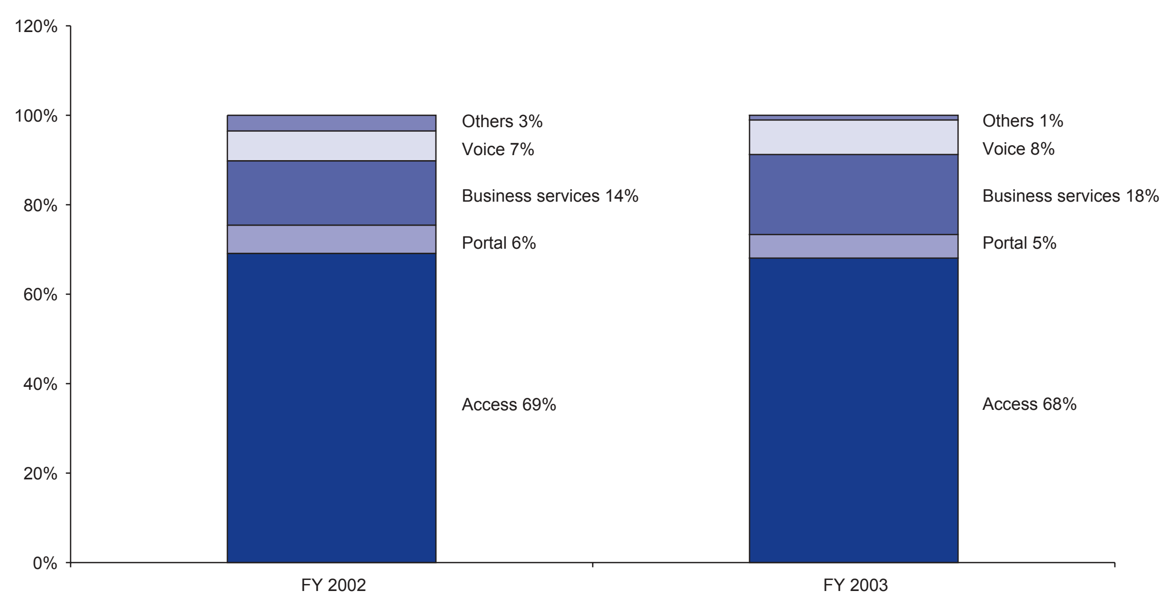
The Group's cash resources totalled EUR 332.5 million at the end of the year, including tax receivables and term deposits, while net debt stood at EUR 279.6 million. Including liabilities to other lenders, net debt came in at EUR 323.1 million, compared to EUR 197.7 million at end-December 2002. This is described in more detail later in the report.

Revenue and cost performance

PROFIT AND LOSS ACCOUNT	31.12.2003	31.12.2003	% CHANGE
Net sales	**901,022**	**748,358**	**20.4**
Cost of goods sold	(445,919)	(383,602)	(16)
Gross profit	**455,103**	**364,756**	**25**
Sales and marketing costs	(140,000)	(122,832)	(14)
Personnel costs	(142,066)	(140,052)	(1.4)
G&A costs	(98,308)	(100,890)	11
EBITDA	**74,729**	**982**	**7,509.9**
Depreciation, amortisation and write-downs	(303,599)	(400,813)	(24.3)
EBIT	**(228,870)**	**(399,831)**	**(42.8)**
Financial income	53,322	98,066	(45.6)
Financial charges	(73,911)	(87,932)	(15.9)
Miscellaneous income	63,328	92,122	(31.3)
Miscellaneous charges	(109,435)	(292,306)	(62.6)
Pre-tax profit (loss)	**(295,566)**	**(589,881)**	**(49.9)**
Current taxes	(2,035)	(2,796)	(27.2)
Deferred taxes	51,619	(92)	(56,207.6)
Profit before minorities	**(245,982)**	**(592,769)**	**(58.5)**
Minorities	3,534	(376)	(1,039.9)
Group profit (loss) for the year	**(242,448)**	**(593,145)**	**(59.1)**

Consolidated revenues came in at EUR 901 million, divided among four main business lines: access, which accounts for around 68% of total revenues, business services (18%), portal services (5%) and voice services (8%).

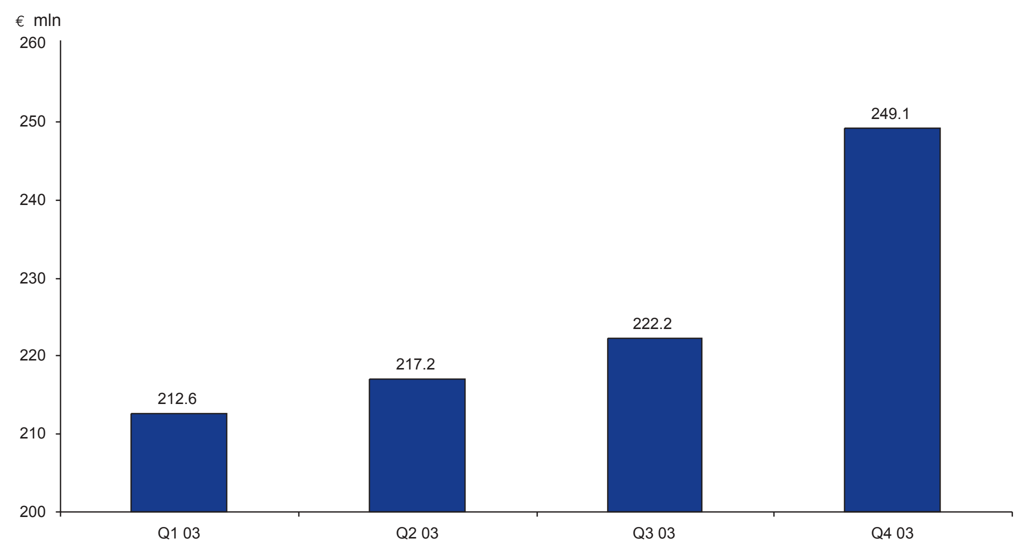
Breakdown of revenues by business line



Access

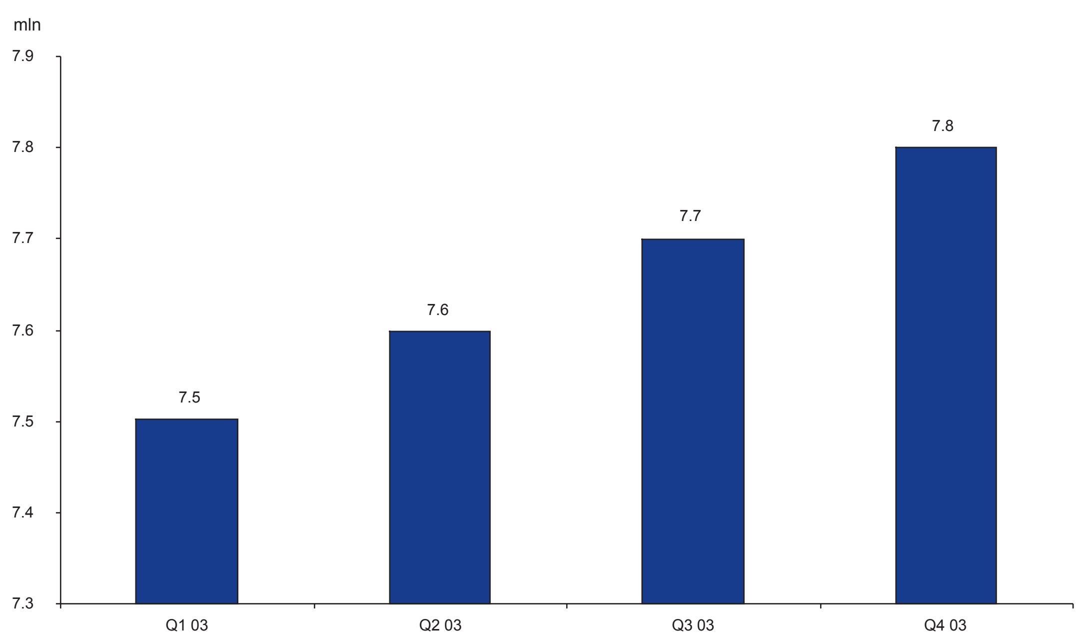
Internet access is Tiscali's core business, and the Group is one of Europe's three biggest operators by number of active users. Tiscali's active user base numbered 7.8 million at 31 December 2003, including some 840,000 broadband (ADSL) customers. Access revenues totalled EUR 613 million, up 19% on 2002, and accounted for 68% of total revenues. This business was the main driver of revenue growth in 2003, and was boosted by rising demand for broadband, which generated net revenues of EUR 143.3 million, a sharp rise on the 2002 figure.

Access revenues



The number of active users rose from 7.3 million at end-2002 to 7.8 million at end-2003.

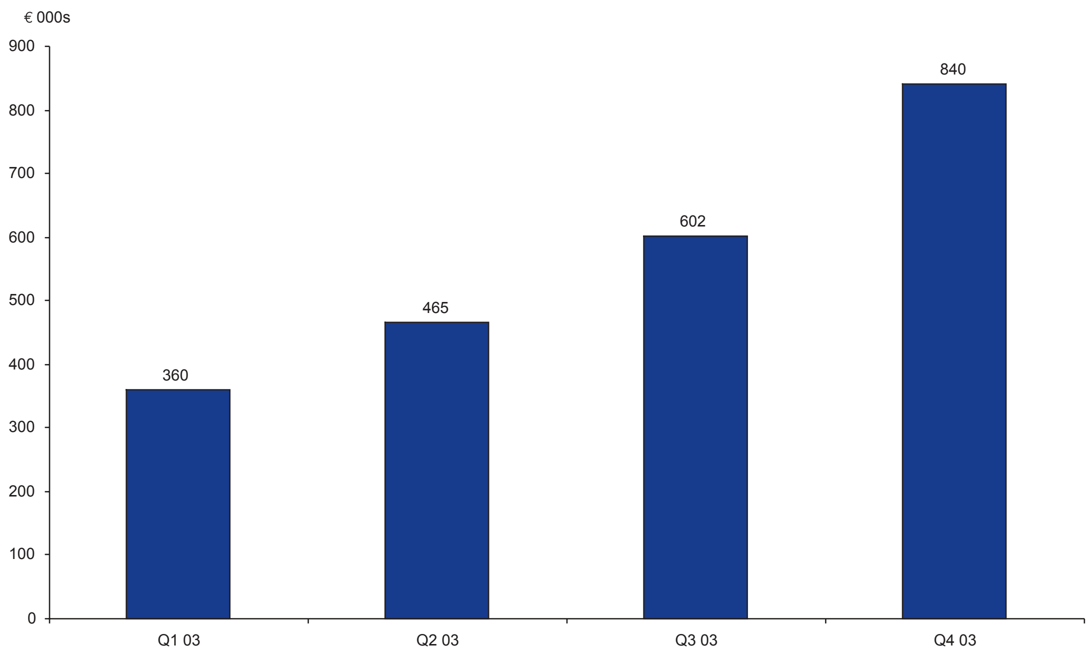
Total users



Despite the migration of dial-up users to broadband, there was a steady flow of new dial-up customers, and so numbers remained steady at around 7 million (as of 31 December). Internet traffic volumes posted strong growth: the number of online minutes jumped by 9% in 2003 to 43.5 billion.

As stated earlier, Tiscali's 7.8 million active users include 840,000 broadband customers; this is a huge increase from the 214,000 users registered at end-2002. This growth was due to an improvement in the regulatory situation (see section on the broadband market), which opened up the market—albeit after some delay—and thus allowed the Group to compete effectively with the former incumbent operators.

ADSL users



Broadband growth accelerated in the second half of the year, from about 12,000 new customers per week in the first quarter of 2003 to 20,000 per week in the last quarter. Growth in ADSL, which the Group offers in all 15 countries in which it operates, gathered pace in the first quarter of 2004 too: at end-March the Group had a total of 1,240,000 ADSL users. This was mainly achieved in the Netherlands, the UK, France, Italy and Germany.

By country, ADSL user numbers grew between end-2002 and end-2003 as follows:

• from 28,000 to 108,549, in Italy;

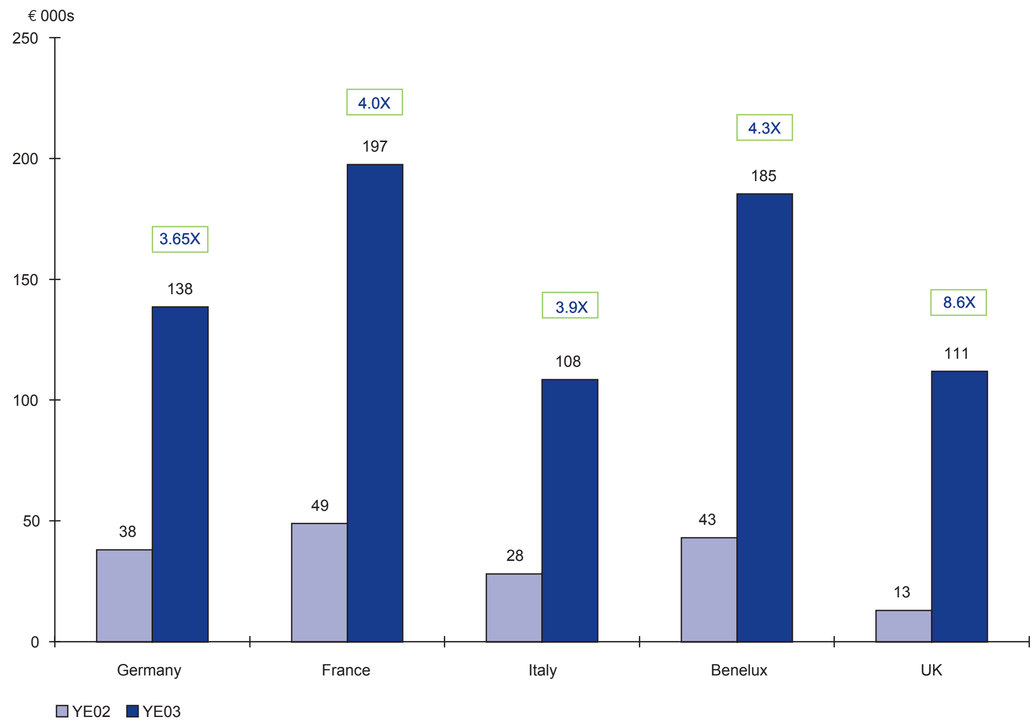
• from 49,000 to 200,000 in France;

• from 38,000 to 138,556 in Germany;

• from 13,000 to 112,000 in the UK, which saw the fastest growth;

• from 43,000 to 185,373 in the Benelux countries—growth accelerated in the Netherlands in the second half of the year, which led to the launch of unbundled broadband in the country in August. In December, more than 40% of Dutch ADSL users were transferred to the unbundled service.

ADSL users

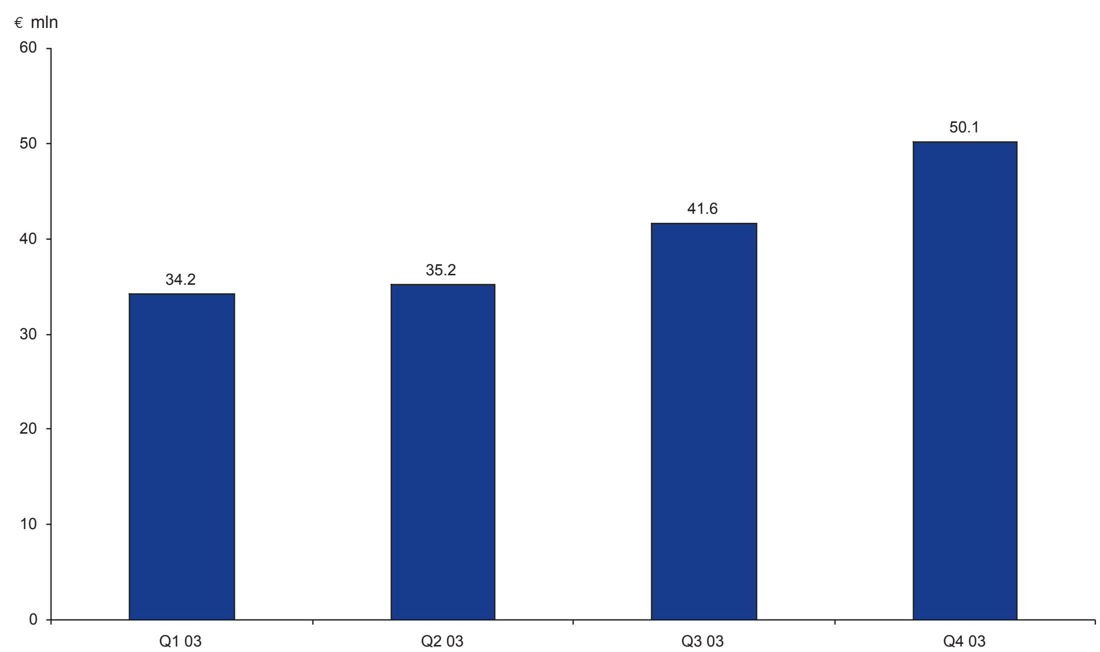


ARPU (average revenue per user) was broadly stable in 2003 at about EUR 6 per month for dial-up and EUR 27 for broadband.

Business services

Revenues from business services were EUR 161.2 million, a 51% increase on the EUR 106.6 million generated in 2002.

Business services revenues



This business area grew steadily over the year—both organically, owing to a sharper commercial focus, and externally, following the acquisition of Nextra in Italy, C&W in France and Eunet in Austria. The contribution of business services to total revenues increased from 14% in 2002 to 18% in 2003.

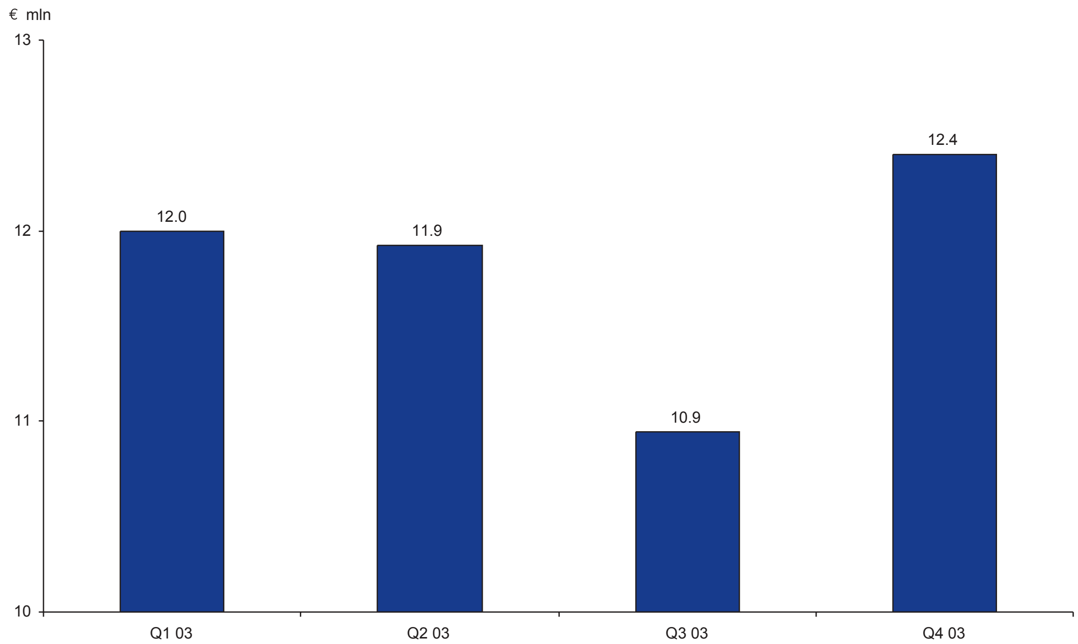
This improved performance was due mainly to an increased focus on expanding the Group's services in this area, which generates high margins and has a stable, loyal and non-seasonal user base. Business services and products include broadband access (leased lines and xDSL), virtual private networks (VPN), web housing, web hosting, wholesale IP services and voice traffic, together with a range of value-added services such as managed hosting, firewalls and security solutions.

In particular, the activities of Tiscali International Network subsidiary Tiscali International Network BV (Netherlands) and its directly-owned subsidiaries in a number of European countries have increased their contribution to business services revenues and therefore total Group revenues, thanks to the resale of bandwidth and services to other operators and big multinationals.

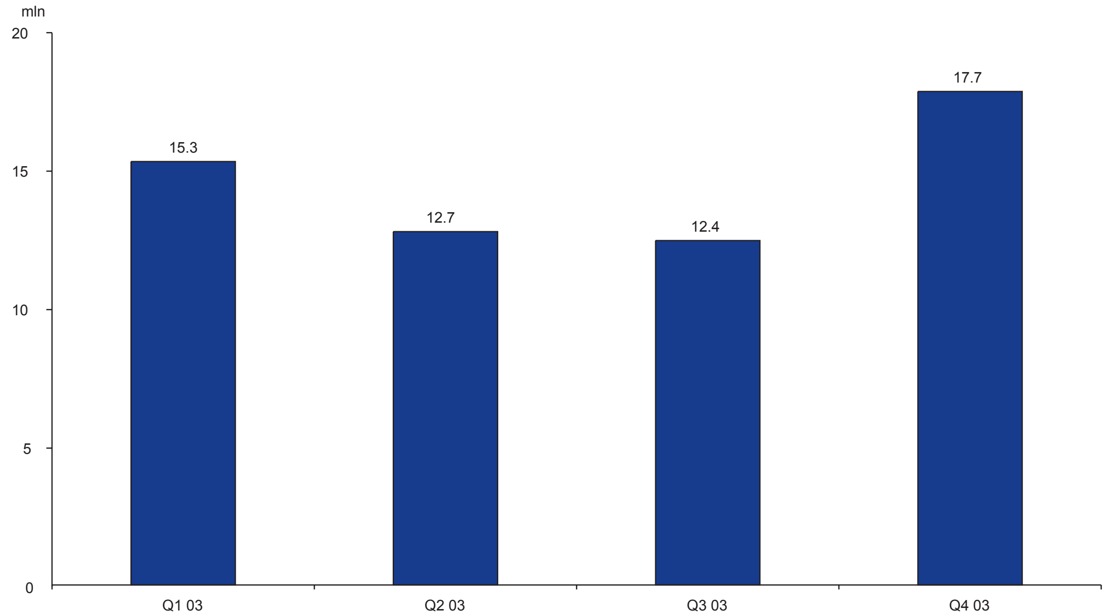
Portal

Portal revenues totalled EUR 47.2 million, and accounted for 5% of total revenues. This performance was broadly steady on the previous year, when portal revenues were EUR 47.9 million, or 6% of the total. Portal revenues come mainly from advertising, and to a lesser extent from content and services (which compensated for low growth in online advertising in 2002).

Portal revenues



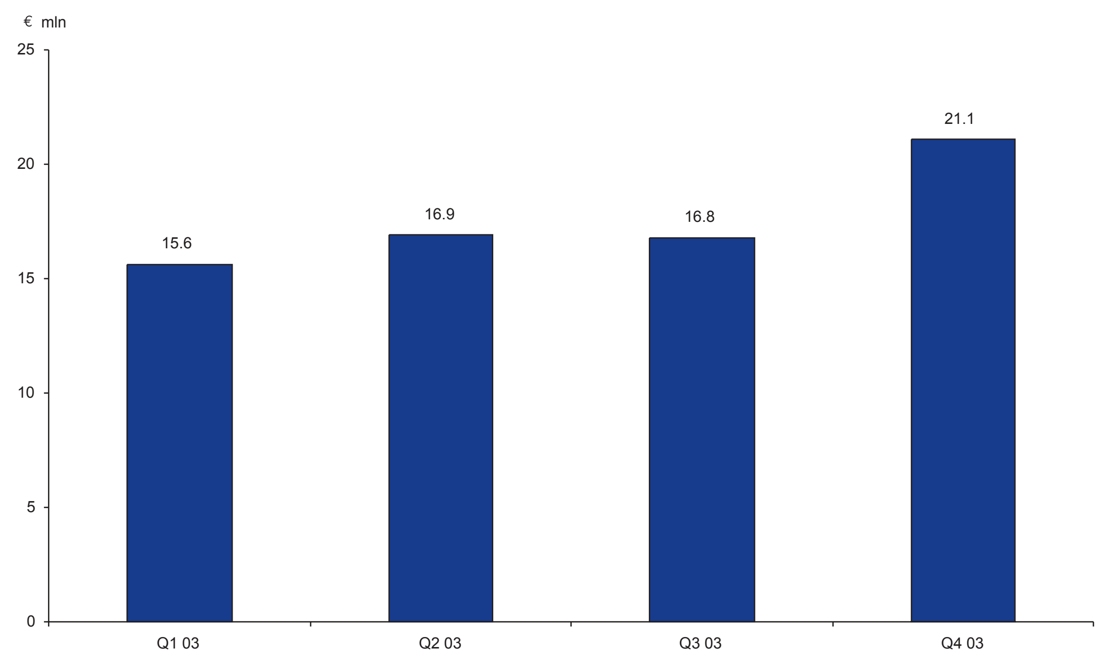
Unique visitors



Voice

Voice revenues were EUR 70.4 million, or 8% of the total; this was an increase of 36% on 2002, when the figure stood at EUR 51.8 million. This sharp growth, especially in the second half of the year, came from both organic and external sources, following the acquisition of npower in the UK, which was consolidated from September 2003.

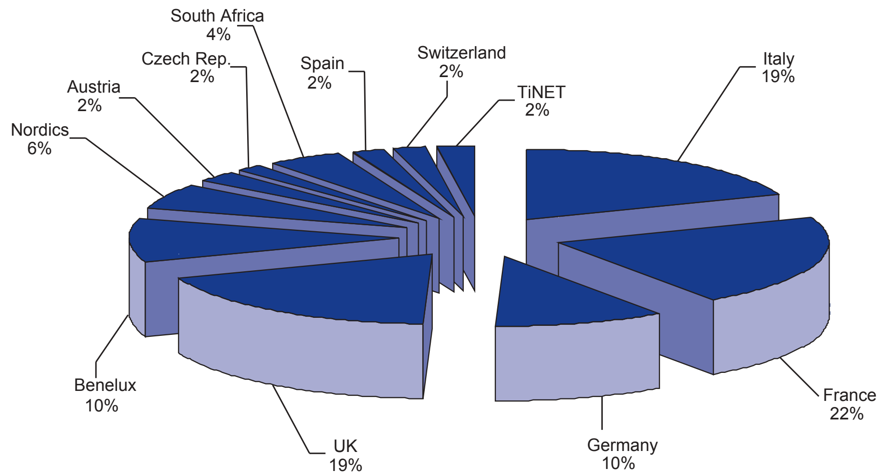
Voice services revenues



Voice services are offered mainly in Italy, and consist of residential, business and pre-paid services. In France, Tiscali is market leader in the area of pre-paid cards, while in the UK it offers a range of residential and business telephone services. With the acquisition of npower (consolidated from September), Tiscali UK gained around 200,000 customers.

Breakdown of revenues by region

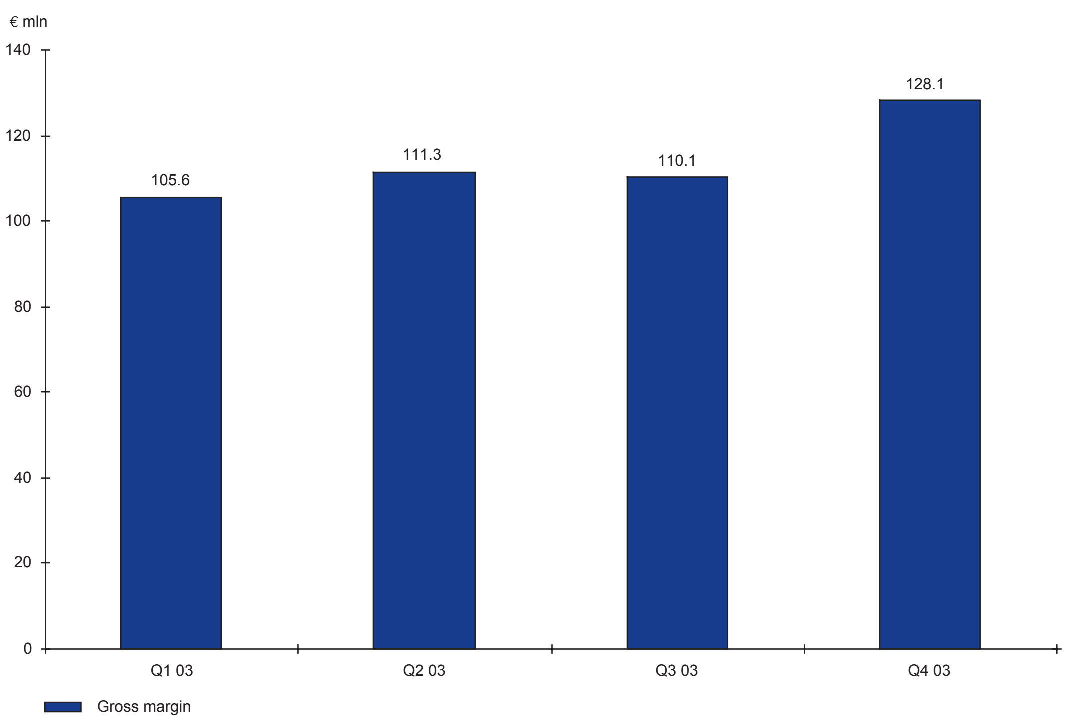
A breakdown by region shows that 80% of Tiscali's revenues are generated in the five biggest European markets. Italy, France and the UK account for around 20% each, and Benelux and Germany for 10%.



Revenues in smaller markets such as Spain, Switzerland, the Czech Republic, Austria and South Africa remained broadly stable.

Gross margin

Increased efficiency enabled Tiscali to generate gross profit of EUR 455.1 million, or 51% of total revenues. This was a 25% increase compared with 2002, when the gross margin stood at 49%.



One of the main factors behind this positive result was the operating and industrial synergies produced by the roll out and management of the proprietary network, which bear out the validity of the Group's decision to develop its own national and international infrastructure. The system has improved industrial efficiency to a great extent thanks to:

- synergies in equipment purchasing, running and maintenance;
- big savings on the main network costs, obtained thanks to IRUs (indefeasible rights of use) contracts; these are multi-year contracts lasting 15-20 years, which allow the Group to acquire capacity from third parties;
- the almost complete elimination of IP transit costs, achieved via peering agreements.

These factors have slashed the proportion of variable to fixed or semi-fixed costs, and mean that a high degree of operating leverage can be achieved as traffic volumes increase.

Gross profit from services stood at EUR 334.6 million, a 33% increase on the previous year. The gross margin was 55%, versus 49% in 2002. This performance was achieved thanks to the network efficiencies described above.

Business services generated gross profit of EUR 83.2 million, and a gross margin of 52%, a substantial improvement on 2002, when the gross margin was 49%. This performance was made possible by operating and industrial synergies created as a result of the acquisitions made during the year.

Gross profit from portal services stood at EUR 23.8 million, or 50% of revenues. This was broadly stable compared to 2002.

Gross profit from voice services was EUR 15.3 million, or 22% of revenues. This was a significant improvement on the previous year, when gross profit stood at EUR 8.1 million, and the gross margin was 16%. This performance was the result of a better product mix, with low-margin products being eliminated.

Operating costs

Operating costs totalled EUR 380.4 million, or 42% of revenues; this represented a substantial improvement on the previous year, when they accounted for 49% of revenues.

Sales and marketing costs were EUR 140 million, or 16% of revenues. This was broadly stable on the percentage registered in 2002, although the costs went up in absolute terms owing mainly to a focus on advertising new access services. Most of the costs went on the launch of ADSL services, with EUR 18.5 million spent on advertising; given their extraordinary nature, these costs were capitalised and amortised over two years.

Personnel costs came to EUR 142.1 million in 2003, versus EUR 140.1 million in 2002, and fell to 16% as a proportion of revenues, from 19% in 2002. The reduction was achieved following the reorganisation largely implemented in 2001 and 2002. The fourth quarter of 2003 also saw the rationalisation of staff in France, which became necessary following Tiscali's acquisition of Cable and Wireless.

At 31 December 2003 Tiscali had 3,226 employees, compared with 3,039 at end-December 2002. The increase was due mainly to the acquisition of C&W in France.

G&A costs totalled EUR 98.3 million, or 11% of revenues. This was a decline on the EUR 100.9 million posted in 2002, when the costs accounted for 13% of revenues.

The wide-ranging restructuring completed in 2002, together with continued revenue growth, have caused operating costs to fall gradually and EBITDA to rise. In 2003 EBITDA was positive to the tune of EUR 74.7 million, compared with only EUR 1 million in 2002.

The Company made an EBIT loss of EUR 228.9 million, a big improvement on the EUR 399.8 million operating loss posted in 2002.

As stated earlier, EBIT was boosted by an extension to depreciation (network equipment) and amortisation (goodwill) periods.

Extraordinary operations

In 2003 Tiscali made a series of acquisitions, with the aim of strengthening its market positioning in certain countries.

Airtelnet

In January 2003 the Tiscali Group acquired Airtelnet, the Internet business of Vodafone Group Plc in Spain for EUR 9.86 million, paid for in newly issued Tiscali shares (2,162,139 shares). The acquisition consolidated Tiscali's position on the Spanish market and boosted profitability. Airtelnet has 110,000 active dial-up users, of which around 5,000 are business customers. The transaction took place at an important time for Tiscali España, as it was in the midst of restructuring its own activities.

Wanadoo Belgium S.A.

In February 2003 Tiscali acquired Wanadoo Belgium S.A. via its subsidiary Tiscali Belgium N.V.. The Wanadoo Group Company cost EUR 9.5 million, and was paid for in newly-issued Tiscali shares (2,290,924 shares). Wanadoo Belgium is a leading ISP and portal, with around 85,000 active users, of which 25,000 were ADSL subscribers at the time of the transaction. The acquisition of Wanadoo Belgium delivered substantial synergies and economies of scale, mainly as a result of the migration of traffic generated by Wanadoo Belgium users onto Tiscali's IP network, which had an immediate impact on profit and loss figures. In addition, Tiscali has consolidated its position on the Belgian market, particularly as regards the broadband market.

Tiscali Internet Limited

In March 2003 Tiscali acquired UK Company Tiscali Internet Ltd and its dial-up user base of over 13,000, for around EUR 600,000 paid for in newly-issued Tiscali shares (152,380 shares).

Home.se AB

In April 2003, Tiscali acquired Home.se AB in Sweden, with around 35,000 active dial-up users. This operation increased Tiscali's revenues and expanded its Swedish user base and product range, which at the time of the acquisition did not include kickback revenues. The acquisition cost was approximately EUR 1.3 million, which was paid for via the issue of Tiscali ordinary shares (333,189 shares).

Nextra S.p.A.

On 18 March 2003, Nextra S.p.A. was acquired from the Telenor Group. The acquisition cost was approximately EUR 2.4 million, which was paid for in newly-issued Tiscali shares (643,950 shares). Nextra S.p.A. is one of Italy's leading suppliers of Internet services to the corporate sector, with a reputation for quality in providing the latest IP services, such as fixed and wireless Internet access, hosting, virtual private networks (IP-VPNs) and messaging services. The Company has around 3,000 business clients.

EUnet EDV und Internet Dienstleistungs AG

In May 2003, Tiscali acquired Austrian B2B Company EUnet EDV und Internet Dienstleistungs AG for approximately EUR 15.9 million, paid for in newly-issued Tiscali shares (3,604,899 shares).

This acquisition represented a turning point for Tiscali on the Austrian market, making its operation there a market leader in providing Internet services to corporate clients.

Cable&Wireless France

With the aim of consolidating its position in business services on the French market, in July 2003, Tiscali completed the acquisition of Cable & Wireless in France (annual sales of EUR 35 million), through its French subsidiary Liberty Surf Group S.A.. The operation will increase Tiscali's business services revenues in France to EUR 50 million. The acquisition cost of EUR 5.6 million will be paid in two tranches, in cash. The first tranche was paid in the third quarter of 2003.

npower

In September 2003 Tiscali acquired the voice business of npower via its subsidiary Tiscali UK. The cost of the operation was around EUR 10.2 million, paid in cash in 2003. The migration of npower's 200,000 voice customers was completed in mid-November. The acquisition contributed to strengthening Tiscali's position on the UK telephony market, where offering voice services is of strategic importance. Tiscali will also be able to offer its new customers a wide range of voice services, as well as dial-up and broadband connections. The acquisition is part of the Group's strategy to strengthen its presence on the UK market.

Bond issues and buyback operations

Equity-linked bonds

At the end of September 2003, Tiscali issued a EUR 209.5 million guaranteed equity-linked bond maturing on 26 September 2006. The bonds were issued by Luxembourg subsidiary Tiscali Finance S.A. (a Company created for the purpose of issuing bonds) and backed by Tiscali S.p.A.. The redemption price was set at EUR 7.57, which offered a premium of 32% on the price of Tiscali shares at issue. The coupon was set at 4.25%.

All of the bonds are to be redeemed at maturity, at a price linked to that of Tiscali ordinary shares. From September 2004, however, bond holders may opt for early redemption (at a price linked to that of Tiscali ordinary shares). The bonds are redeemable in cash (whether redeemed early or at maturity) or Tiscali ordinary shares, at the discretion of Tiscali Finance, to the equivalent of the redemption price indicated in Condition 6 of the issue regulations (please see the notes to the accounts for more information). The issue has enabled Tiscali to refinance part of its existing debt under better conditions.

Public offer to buy back bonds maturing in July 2004

On 17 November 2003, Tiscali announced plans to launch a buyback on all bonds issued in July 2002 by subsidiary Tiscali Finance S.A. and maturing in July 2004, worth a total of EUR 150 million. On 28 November CONSOB approved the publication of the offer prospectus. The offer period was 1-22 December 2003. This operation formed part of the process of restructuring Tiscali Group debt, by refinancing a proportion of it to improve the cost and maturity profile. When the offer closed on 22 December 2003, take-up had reached 46.47% of the relevant bonds, worth a total of EUR 69.698 million. Added to the face value of almost EUR 69.7 million were interest payments of around EUR 2.1 million (EUR 29.78484 per EUR 1,000 of the face value), bringing the total payment to EUR 71.8 million.

Financial position

(EUR/000)	31.12.2003	31.12.2002	CHANGE	% CHANGE
Current assets				
Cash, banks and other financial assets	332,563	333,757	(1,194)	(0.4)
Receivables from customers	173,152	190,572	(17,420)	(9.1)
Inventories	9,906	6,310	3,596	57.0
Accrued income and deferred charges	90,912	41,872	49,040	117.1
Other current assets	68,471	66,824	1,647	2.5
Total current assets	**675,004**	**639,335**	**35,669**	**5.6**
Non-current assets				
Tangible assets	246,550	287,209	(40,659)	(14.2)
Intangible assets	715,903	749,213	(33,310)	(4.4)
Investments	13,327	13,160	167	1.3
Other non-current assets	10,477	2,588	7,889	304.8
Total non-current assets	**986,257**	**1,052,170**	**(65,913)**	**(6.3)**
Total assets	**1,661,261**	**1,691,505**	**(30,244)**	**(1.8)**

LIABILITIES AND SHAREHOLDERS' EQUITY	31.12.2003	31.12.2002	CHANGE	% CHANGE
Short-term liabilities				
Banks	37,992	46,846	(8,854)	(18.9)
Other financial payables	81,184	25,199	55,985	222.2
Payables to suppliers	310,647	306,676	3,971	1.3
Other payables	46,868	18,793	28,075	149.4
Accrued liabilities and deferred income	158,993	133,692	25,301	18.9
Tax payables	29,055	20,892	8,163	39.1
Total current liabilities	**664,739**	**552,098**	**112,641**	**20.4**
Medium-/long-term liabilities				
Medium-/long-term loans	493,003	412,460	80,543	19.5
Staff severance indemnity reserve	10,850	7,002	3,848	55.0
Other reserves for risks and charges	21,289	20,159	1,130	5.6
Other medium-/long-term liabilities	45,824	67,449	(21,625)	(32.1)
Total medium-/long-term liabilities	**570,966**	**507,070**	**63,896**	**12.6**
Minority interests	**6,336**	**16,309**	**(9,973)**	**(61.2)**
Total liabilities	**1,242,041**	**1,075,477**	**166,564**	**15.5**
Shareholders' equity				
Share capital	184,460	180,867	3,593	2.0
Reserves	477,208	1,028,306	(551,098)	(53.6)
Net profit	(242,448)	(593,145)	350,697	(59.1)
Total shareholders' equity (Group)	**419,220**	**616,028**	**(196,808)**	**(31.9)**
Total liabilities and shareholders' equity	**1,661,261**	**1,691,505**	**(30,244)**	**(1.8)**

Consolidated shareholders' equity, including minorities, stood at EUR 425.6 million as of 31 December 2003.

This is a lower figure than at 31 December 2002, as the Group made a net loss for the year of EUR 245.9 million.

Net financial indebtedness

The Group's financial assets and liabilities are summarised below.

Cash	**EUR 203.5 million**
Current accounts	EUR 130.4 million
Investments in short-term money market instruments	EUR 73.1 million
Other financial assets	**EUR 129.0 million**
Term deposits	EUR 51.8 million
Tax receivables and capital grants *	EUR 77.2 million
TOTAL CASH AND CASH EQUIVALENTS	**EUR 332.5 million**
Bonds maturing in July 2004	EUR 80.3 million
Bonds maturing in July 2005	EUR 250.0 million
Bonds Equity-linked in September 2006	EUR 209.5 million
Telinco bonds	EUR 0.8 million
Loans and other long-term liabilities	EUR 33.5 million
Other short-term financial liabilities	EUR 38.0 million
TOTAL GROSS DEBT 1	**EUR 612.1 million**
Liabilities to other lenders **	EUR 43.5 million
TOTAL GROSS DEBT 2	**EUR 655.6 million**
NET DEBT 1	**EUR 279.6 million**
NET DEBT 2	**EUR 323.1 million**
PRO FORMA NET DEBT 1	**EUR 70.1 million**
PRO FORMA NET DEBT 2	**EUR 113.6 million**
(assuming full conversion of Equity-linked bonds)	

** Mainly tax refunds applied for and expected to be received before end-2004*
*** Mainly includes leasing payments*

As of 31 December 2003, net financial debt (excluding liabilities to other lenders) had increased by EUR 143.8 million compared to a year earlier.

GROUP FINANCIAL POSITION (EUR/000)	30.12.2003	31.12.2002
Cash and cash equivalents and other financial assets	332,563	333,751
Short-term bank debt	(119,176)	(56,057)
Short-term debt	**213,387**	**277,694**
Medium-/long-term debt	(493,003)	(412,460)
Net debt	**(279,616)**	**(134,766)**

Specifically, long-term debt increased from EUR 412.5 million to EUR 493.0 million following the EUR 209.5 million issue of equity-linked bonds (maturity: 2006), which was partially offset by the buyback of bonds worth EUR 69.7 million that were due to mature in 2004. In addition, a 15-year loan of EUR 32 million was taken out to finance the construction of the Group's new headquarters in Cagliari.

Short-term debt increased from EUR 56.1 million to EUR 119.2 million following the inclusion of the remaining EUR 80.3 million portion of the EUR 150 million bond, partially offset by lower bank borrowings.

Cash and cash equivalents were largely unchanged versus the previous year.

The table below details the Group's outstanding bond issuance

ISSUER	NOMINAL VALUE (EUR MILLION)	YIELD	MATURITY	GUARANTOR
Tiscali Finance S.A.	80.3*	6.375%	July 2004	Tiscali S.p.A.
Tiscali Finance S.A.	250	Euribor + 3.25%	July 2005	Tiscali S.p.A.
Tiscali Finance S.A.	209.5	4.25%	September 2006	Tiscali S.p.A.

** Original issue value: EUR 150 million. Amount remaining following the buyback operation carried out in December 2003*
For further information on bonds please consult the investor relations section on the website at tiscali.com

Please see the Outlook section below for details of Tiscali's plans to redeem bonds maturing in July 2004 and July 2005.

Special clauses relating to bonds

The equity-linked bond issue maturing in 2006 involves a convertible bond with a soft mandatory clause. This means that the issuer can assign shares, even where, at maturity, Tiscali's market price is lower than the conversion price (set at EUR 7.57 per share). In this case, the difference between the conversion price and the market price would have to be made up by the issuer. For example, if the market price is EUR 2 lower than the conversion price, based on a fixed conversion ratio, Tiscali would have to give bond holders shares worth around EUR 154 million, and the difference of around EUR 55.5 million in cash, thereby settling the nominal debt of EUR 209.5 million.

The bonds maturing in 2004 and 2005 include a covenant linked to the Tiscali Group's gross debt and consolidated shareholders' equity as of 31 December each year. The two covenants are set out in the table below. The covenant applying to Tiscali Group in 2004 is listed first (negative consolidated cash flow).

COVENANT CALCULATION PERIOD	CONSOLIDATED CASH FLOW	COVENANT
Annual, at 31.12 each year	Negative	Consolidated gross debt must not exceed the greater of: i) EUR 600 million and ii) 2x consolidated shareholders' equity
Annual, at 31.12 each year	Positive	Consolidated net debt must not exceed the greater of: i) 3x consolidated EBITDA, ii) EUR 600 million and iii) 2.5x consolidated shareholders' equity

Given consolidated shareholders' equity of EUR 425.6 million and consolidated gross debt of EUR 654.6 million as of 31.12.2003, the ratio is 1.5x, and therefore lower than the limit of 2x imposed by the covenant.

Investment

Group gross investment in tangible and intangible assets totalled EUR 129.6 million, or 14% of revenues. EUR 66.2 million was invested in tangible assets in relation to the roll out and maintenance of network infrastructure, including the purchase of new servers and routers. Most of the investment was spent in Italy and the Netherlands, and on the Tiscali international network. In the second half of the year, investment in tangible assets related to the roll out of the infrastructure necessary to support unbundled ADSL services. In addition, around EUR 30 million was spent on the new technical and administrative headquarters and a new server farm in Cagliari.

Investment in intangible assets totalled EUR 63.4 million and was mostly spent on purchasing software to improve service quality and support Internet traffic growth and new user licences for acquiring capacity (IRUs).

Receivables

The increase from EUR 230.1 million in 2002 to EUR 304.0 million was due to the booking of deferred tax assets of EUR 51.6 million, and EUR 30 million relating to the application of VAT refunds, partially offset by the reduction in receivables from customers due to an improvement in payment collection.

Payables to suppliers

The increase from EUR 306.7 million to EUR 310.6 million is entirely due to higher business volumes.

Payables to others

OTHER PAYABLES (EUR/000)	31.12.2003	31.12.2002	CHANGE
Payables to directors (emoluments)	517	585	(68)
Payables to employees (accrued holiday pay)	5,326	1,752	3,574
Other payables	30,305	9,805	20,500
Total	**36,148**	**12,142**	**24,006**

The increase from EUR 9.8 million to EUR 30.3 million related to a deferred payment of EUR 5.6 million for the acquisition of UK Company npower, and of EUR 2.5 million for the acquisitions of EU.net and Home.

In addition EUR 5 million related to the acquisition by Tiscali BV of the network divisions of BabyXL and BT Ignite.

Significant events taking place after the year end

ADSL users and other initiatives

At the end of March 2004, ADSL customers numbered 1,240,000, owing to growth in Tiscali's main European markets. Tiscali became the second largest ADSL operator in the UK ahead of Wanadoo subsidiary Freeserve, thanks to its innovative package being well received by customers.

In particular, the Group has exceeded its targets by over 100%, with user numbers up by 50% compared to 31.12.2003.

Strong growth in ADSL customer numbers in the first two months of 2004 was driven by necessary investment in promotional campaigns aimed at capturing new clients and investment in unbundling.

On 12 March 2004, Tiscali announced that it had signed an agreement to use the Cisco platform to launch voice over IP services.

Financial position

Tiscali's financial position as of 29 February 2004 is shown below. In particular, cash resources of EUR 44.9 million were used in the first two months of the year. The Company also bought back bonds due in July 2004 worth a total of EUR 7.4 million.

However, the **cash burn rate is falling**: EUR 30 million was spent in January 2004, but this fell to around EUR 15 million in February. Tiscali expects to see a further significant reduction in March.

	31.12.2003	29.02.2004
Cash	**EUR 203.5 million**	**EUR 153.7 million**
Other financial assets	EUR 129.0 million	EUR 119.7 million
Term deposits	EUR 51.8 million	EUR 43.1 million
Tax receivables and capital grants *	EUR 77.2 million	EUR 76.6 million
TOTAL CASH AND CASH EQUIVALENTS	**EUR 332.5 million**	**EUR 273.4 million**
Bonds maturing in July 2004	EUR 80.3 million	EUR 72.9 million
Bonds maturing in July 2005	EUR 250.0 million	EUR 250.0 million
Equity-linked bonds maturing in September 2006	EUR 209.5 million	EUR 209.5 million
Telinco bonds	EUR 0.8 million	EUR 0.8 million
Loans and other long-term liabilities	EUR 33.5 million	EUR 33.5 million
Other short-term financial liabilities	EUR 38.0 million	EUR 38.0 million
GROSS DEBT 1	**EUR 612.1 million**	**EUR 604.7 million**
Liabilities to other lenders **	EUR 43.5 million	EUR 38.7 million
GROSS DEBT 2	**EUR 655.6 million**	**EUR 643.4 million**
NET DEBT 1	EUR 279.6 million	EUR 331.3 million
NET DEBT 2	EUR 323.1 million	EUR 370.0 million
PRO FORMA NET DEBT 1	**EUR 70.1 million**	**EUR 121.8 million**
PRO FORMA NET DEBT 2 (assuming the full conversion of Equity-linked bonds)	**EUR 113.6 million**	**EUR 160.5 million**

** Mainly tax refunds expected to be received before end-2004*
*** Mainly includes leasing payments*

Tax inspections

The Italian tax police carried out an inspection at Tiscali S.p.A. last year, which began on 11 September and was completed on 12 December, when it delivered a record of findings filed by the Guardia di Finanza (Tax Police).

Proceedings by the tax police do not in themselves constitute concrete allegations against the Company inspected, but merely serve to provide information to the relevant tax office, which will then issue a tax assessments, but only if it considers the comments of the tax police to be well-founded, against which the Company may appeal.

The findings of the tax police concerned: (i) minor amounts of VAT; (ii) interest earned on intragroup loans, which is less than EUR 7 million for the period 2001/2002; and (iii) the future use of tax losses carried forward of EUR 210 million.

None of the points raised in the tax police report—even those judged to be well-founded—affect Tiscali's results, since the Group has sufficient credits on past tax losses (accumulated in the start-up phase) to offset any increased tax payments required.

In addition, the report has no effect on the total tax assets relating to the tax losses carried forward announced to the market, which for reasons of caution included only part of the losses actually realised. The figure previously revealed by the Group is therefore confirmed at around EUR 1 billion.

Tiscali will consider whether to appeal if the tax office decides to act on the tax police's remarks (which in any case have a neutral effect on the Company's balance sheet).

Outlook

Background

The Tiscali Group is facing exciting challenges for the future: broadband has opened up new market opportunities, and has confirmed the validity of the Group's access-based business model as a base on which to develop services and content.

After establishing its presence in the dial-up segment, Tiscali is now proving its growth potential on the broadband market. It is now one of Europe's leading players and is able to compete with former incumbents on a market offering enormous potential.

Strategic plan 2004-2006

Tiscali's board of directors has now approved a strategic plan based on:

- broadband growth;
- an unbundling strategy;
- a sharper focus on Europe's main markets.

Revenues are forecast to rise at a CAGR of 29% in 2004-2006, and to exceed EUR 2 billion by the end of the period. Over a third of ADSL clients are expected to be unbundled by then, and the ADSL user base is projected at over 5 million by 2008. The EBITDA margin is expected to expand beyond 20% in 2006, and the Group expects to make a net profit in 2005.

In 2004, the Group plans to invest EUR 75 million in unbundled services in the Netherlands, France and Italy (EUR 25 million per country), which will extend coverage to 30-60% of ADSL lines. As well as unbundled services (already available in the Netherlands and Denmark), Tiscali plans to offer integrated voice, data and content services, which should provide a significant boost to both customer loyalty and ARPU.

The plan has set the following short-term objectives for 2004:

- revenue growth of more than 30% to over EUR 1.2 billion, mainly driven by broadband access and business services;
- EBITDA margin at 11% of revenues;
- over 1.6 million ADSL users;
- investment at 10% of revenues (see above);
- generation of free cash flow in the second half of 2004.

Financial outlook

By expanding its broadband business, Tiscali will no longer be a "free" Internet services provider, but a supplier of integrated broadband services. The need to invest and attract new clients is therefore becoming increasingly important, as the market is currently offering significant opportunities within the Group's reach.

Meanwhile, Tiscali is facing a significant financial commitment in respect of bonds maturing in the near future. In July 2004, the first of the outstanding bond issues, worth a total of around EUR 80 million, will reach maturity. Tiscali expects the cash currently available to be sufficient to redeem these bonds.

Tiscali will use the remainder of its cash to finance operations and its investment plan.

With regard to redemption of the EUR 250 million bond issue maturing in July 2005, the directors plan to fund this as follows:

- existing financial resources and cash flow from ordinary operations, expected to be generated from the last quarter of 2004, should provide the bulk of the funding;

- further resources should be made available following the disposal of investments on non-core markets, which the board of directors has approved and which is currently being implemented;

- given the level of investment required to sustain growth, particularly on the broadband market, Tiscali plans to refinance all or part of the bond due in 2005, with the aim of optimising its financial structure. The necessary financing may be obtained from banks, or the equity or bond markets (which may include a convertible issue); this will also help minimise the inherent risk of its strategic plan, which is to be implemented in a new and highly competitive market, while maximising the Group's financial flexibility.

In view of the market prospects and Tiscali's competitive position, given:

- a high level of operating efficiency, following the completion of the Group reorganisation;

- an improvement in its internal planning activities.

The Group's target of achieving a better financial structure is well within its grasp, as the business plans, the disposal programme for non-core assets and the refinancing strategy indicate.

The targets set by the strategic and financial plan, including the disposals, are key to improving Tiscali's financial position and achieving a better financial structure; and therefore to ensuring that the Group is able to redeem the next bond issues falling due and comply with the related covenants, and that it will be able to raise the finances necessary to sustain growth, particularly in broadband services.

We would like to specify that the Company is not in any financial difficulty and has no problems in its dealings with customers or suppliers, apart from minor delays and/or disputes with certain suppliers and customers arising in the normal course of operations of Group companies.

Ongoing disputes

Tiscali is currently involved in a number of legal disputes. However, even assuming a negative outcome, the Group's management does not expect any of the cases pending to have a major impact on its consolidated financial position or on future results. The main cases pending at 31 December 2003 are listed below, in respect of which Tiscali has made provisions of around EUR 3 million, corresponding to the amount the Group is prepared to pay the counterparties by way of settlement.

- In July 2001, Dutch foundation Vereniging van Effectenbezitters, which represents a Group of minority shareholders in World Online International N.V. made a claim for damages against World Online (currently 99.5%-owned by Tiscali) and the financial institutions involved in its stock market listing, alleging, in particular, that some of the information provided in the IPO prospectus and in certain public statements issued by the Company and its chairman at the time was incomplete and inaccurate. The Dutch court ruled on 17 December 2003 that the IPO prospectus did not contain any misleading information and that many other claims were groundless. In the same ruling, however, the Dutch judges upheld the claim that a press release issued by World Online did not do enough to clarify comments made by its former chairman at the time of the listing regarding her own shareholding. World Online plans to appeal against this decision, as it claims it did not need to provide any further clarification, given that the IPO prospectus was not deemed to be inaccurate. Furthermore, any damages to be paid will have to be established in a new court case, with the onus on the shareholders' association to substantiate the causal link and the amount

of damages claimed. Similar proceedings were launched by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001;

• In December 2000, Jean Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co initiated legal proceedings against World Online Ltd, a UK subsidiary of the World Online Group, complaining that they were prevented from exercising an option to purchase World Online Ltd shares. They are claiming damages of around EUR 17.4m for loss of the profit they could have made on the resale of the shares. Tiscali has a bank guarantee of EUR 21.4 million against this claim. In December 2003, the Dutch court entered an interlocutory judgement requiring the plaintiffs to substantiate their claims;

• In December 2000, Globetrans Ltd and Interglobetrans Ltd began legal proceedings against World Online International N.V.. The plaintiffs, both of which are controlled by Jean Philippe Illiesco de Grimaldi, are asserting their right to a 1% commission on the total sum paid by Tiscali for the purchase of World Online International N.V., since they put the Company's management in contact with Tiscali. The sum claimed is around EUR 69 million. In December 2003, the Dutch court entered an interlocutory judgement requiring the plaintiffs to substantiate their claims;

• The Dutch tax authorities have begun to investigate an alleged failure to pay social security contributions totalling EUR 40 million in relation to payments allegedly received by former World Online chairman James Kinsella from the Company Reggenborg, a former World Online shareholder. The payments in question relate to 2002, well after Mr Kinsella left the Group in February 2001. The Company claims that these payments, of which it was not aware, in any event concern personal relations between Mr Kinsella and Reggenborg, and do not therefore involve Tiscali.

Transition to IAS/IFRS

Pursuant to Regulation (EC) 1606 of July 2002, EU companies listed on a regulated market are required to adopt IAS/IFRS in the preparation of their consolidated accounts from 2005. In order to comply with the recommendations of the CESR (Committee of European Securities Regulators), of which Consob is a member, the measures to be taken by Tiscali to make the transition to IAS/IFRS are summarised below.

Tiscali began a programme to adopt IAS/IFRS at the end of 2003; to this end, it has set up work Groups divided according to accounting area and expertise (accounting, management control, operating processes, IT systems, etc) within both the parent Company and its main operating subsidiaries.

First-time adoption of international accounting principles:

Annual and interim accounts prepared in compliance with IAS/IFRS must contain an explicit and unreserved statement of compliance with all the standards in force at the end of the period under review, and must include at least one earlier set of accounts prepared using the same criteria for the purposes of comparison.

On the date of transition to IFRS, that is the beginning of the earliest period for which a Company presents comparative information (1 January 2004 for Tiscali), the Company shall prepare a balance sheet that:

• shows all assets and liabilities recognised according to the new standards;

• restates assets and liabilities according to their values had the new IAS/IFRS principles always been applied.

The effect of adjusting the initial balances of assets and liabilities to the new standards is shown under shareholders' equity.

Corporate Governance*

The Company was formed using a traditional Corporate Governance model as represented by a Board of Directors and Statutory Auditors. Notwithstanding the fact that recent Company law reforms have given public limited companies the right to adopt models that deviate from the traditional structure, the Company has, at the present time, decided to keep its own system of Corporate Governance unchanged in order to guarantee continuity and consistency with the consolidated structure, enabling roles and powers to be clearly divided between governing bodies, in consideration of the provisions of the Code.

The governing bodies comprise the Board of Directors, the Board of Auditors and the Shareholders' Meeting. In addition, a Chief Operating Officer has been appointed.

- Internal Audit Committee (Victor Bischoff and Tomaso Barbini);
- Remuneration Committee (Mario Rosso, Renato Soru and Victor Bischoff).

Board of Directors

The Board of Directors has a prominent role to play in Company life, being the body responsible for providing strategic and organisational guidelines and, as such, for identifying Company objectives and monitoring achievement of same.

This body is invested with all ordinary and extraordinary powers of administration pursuant to article 14 (Powers of the Board of Directors) of the Company's Articles of Association.

The Board of Directors examines and approves strategic, industrial and financial plans for the Company and the Group to which it belongs; reports to the Board of Auditors on a quarterly basis on activities carried out by the Company or its subsidiaries and operations which are of major significance from an economic, financial and balance sheet perspective.

The powers and duties exercised by the Company's Board of Directors in its role as provider of strategic guidelines, supervisor and monitoring body for Company activities, as set out in the Company's Articles of Association and implemented in corporate codes of practice are largely consistent with what is laid down by articles 1.1 and 1.2 of the Code.

Article 10 (Company Administration) of the Company's Articles of Association states that the Board of Directors may comprise between three and eleven members, as decided by the Shareholders' meeting.

The Board of Directors currently has six members. The Board of Directors appointed by the Shareholders' meeting on 30 April 2002 underwent the following changes in 2003. Following the resignation of James Kinsella on 24 January 2003, the Board of Directors co-opted Gabriel Pretre onto the Board at the meeting on 12 February 2003. This appointment was then confirmed by the Shareholders' meeting on 29 April 2003. At the meeting on 14 May 2003, following the resignation of Hermann Hauser on the same date, the Board of Directors co-opted Tomaso Barbini onto the Board, the appointment subsequently being confirmed by the Shareholders' meeting on 27 October 2003. Mario Rosso was appointed on the same date to replace Elserino Piol who had handed in his own resignation on 16 July 2003.

The mandate of the current Board of Directors, appointed by the ordinary Shareholders' meeting on 30 April 2002, will expire following approval of the annual results for the year ending on 31 December 2004.

The Board of Directors has set up an Internal Audit Committee and a Remuneration Committee from amongst its members.

** As of 31.12.2003*

Chairman of the Board of Directors and Chief Executive

In accordance with the provisions of the Company's Articles of Association, the Chairman of the Board of Directors calls and conducts meetings of the Board, and co-ordinates its activities. When Board meetings are held, the Chairman ensures that documentation required for the Board to be able to discuss knowledgably the subjects under examination is prepared and distributed to Directors well in advance. The Chairman therefore performs the role indicated by articles 4.1 and 4.2 of the Code.

The Chairman of the Board of Directors also acts as Chief Executive. By virtue of a special proxy issued on 14 May 2002, the Board of Directors invested the Chairman and Chief Executive with powers relating to all ordinary acts of administration as well as powers relating to extraordinary acts of administration.

The Chief Executive reports to the other Directors and to the Board of Auditors, at Board meetings held at least once a quarter, on the most significant economic, financial and balance sheet-related operations carried out by the Company or its subsidiaries. In addition, the Chief Executive supplies the Board with appropriate and up-to-date information at Board meetings regarding atypical or unusual operations for which approval is not reserved to the Board, as well as on activities of major significance occurring within the scope of the powers and duties invested in him. Except in the event of necessity and emergency, it is normal procedure for such activities to be submitted for examination by the Board beforehand so that they can decide upon same in a knowledgeable and considered manner.

Non-executive and independent Directors

The Board of Directors currently comprises five non-executive Directors, two of whom are independent, out of a total of six. The only Director with executive duties is the Chairman and Chief Executive, Renato Soru.

As indicated in article 3.2 of the Code, the Board evaluates Directors' independence on an annual basis, when this Report is prepared, and provides the market with appropriate information in this respect by publishing said report.

Franco Bernabè and Tomaso Barbini are independent Directors, their qualifications as such being consistent with article 3.1 of the Code. For the sake of completeness of information, please note that, as shown in the table below, Franco Bernabè is Vice Chairman of Hutchison 3G Italia S.p.A., in which Tiscali Finance S.A., one of the Company's subsidiaries, has a shareholding of around 0.3%. In addition, during 2003 the Group controlled by the Director Franco Bernabè provided consultancy services to the Tiscali Group under market terms and, at any rate, for an overall sum not in excess of 5% of the annual revenues of both Groups.

None of the Directors plays any role in the Boards of auditors of other listed companies or banking and insurance companies or companies of significant size. The Company believes that, in addition to posts held elsewhere, the Directors are in a position to dedicate the time required to perform their Directorial duties in a diligent manner.

The Board of Directors meets on a regular basis, at least once every three months, to approve the quarterly reports as at 31 December, 31 March and 30 September, as well as the half-yearly report as at 30 June and the draft financial results for the year as at 31 December every year.

It is normal procedure for the Chief Operating Officer, the Finance Director, and managers and external advisors, depending on the specific nature of the subjects to be dealt with, to be regularly called upon to attend Board meetings. The Board of Directors frequently avails itself of fairness opinions or legal opinions issued by advisors and experts, so as to facilitate the mindful and knowledgeable adoption of resolutions proposed at meetings.

The Board of Directors met six times in 2003, chiefly to discuss and approve periodic accounts data and significant operations carried out by the Company. The Board of Directors has met five times in 2004.

Appointment of Directors

Article 11 (Board of Directors) of the Company's Articles of Association specifies a voting list system for the appointment of Directors, under which the appointment of a certain number of Directors on the lists that have not obtained the majority of votes is ensured, guaranteeing the transparency and correctness of the appointment procedure.

Only Shareholders who alone, or together with other Shareholders, represent at least 2% of the voting rights at the Ordinary Shareholders' Meeting are entitled to submit lists. This mechanism ensures, therefore, that even minority Shareholders have the power to submit their own lists.

Based on the requirements contained in the aforementioned article 11 (Board of Directors) and on the article of association, the lists of nominations must be filed at the Company's registered office at least ten days prior to the date of the first meeting, together with CVs for individuals appearing on the lists.

Shareholders' meetings

The Company has always encouraged and facilitated Shareholders' participation in Meetings, supplying any Company-related information requested by Shareholders in accordance with regulations governing price-sensitive communications.

As suggested by article 12.4 of the Code, the Shareholders' meeting has adopted its own Meeting Regulations.

To make it easier for Shareholders to receive information and attend meetings, and to facilitate access to documentation which, in accordance with the law, must be made available to them at the registered office when meetings are being held, the Company makes documentation available in electronic format in a special section of the Investor Relations page of its website.

The Board of Directors believes that minority Shareholders' prerogatives have been respected in so far as the Company's current Articles of Association do not provide for majorities other than those laid down by law.

Board of Statutory Auditors

Article 18 (Board of Auditors) of the Company's Articles of Association specifies a voting list system for the appointment of Auditors, which guarantees the transparency and correctness of the appointment procedure and protects minority Shareholders' rights.

Only Shareholders who alone, or together with other Shareholders, own a total of at least 2% of ordinary shares, are entitled to submit lists. Five candidates must be listed from one to five, starting with the one with the greatest professional seniority. Each Shareholder may submit, or join in submitting, one list and each candidate may be listed in only one list or be disqualified. Lists of nominations must be filed at the registered office at least ten days prior to the date of the first meeting, together with CVs for the individuals listed.

On 29 April 2003 the Ordinary Shareholders' meeting appointed a new Board of Statutory bAuditors which will remain in office until approval of the balance sheet as at 31 December 2006. Aldo Pavan, Piero Maccioni and Massimo Giaconia were elected as Statutory Auditors. Andrea Zini and Rita Casu were elected as Deputy Auditors. Aldo Pavan was elected Chairman of the Board of Auditors.

Article 18 (Board of Directors) of the Company's Articles of Association states that at least one of the Statutory Auditors, and at least one of the Deputy Auditors, must be chosen from those listed in the official register of auditors, and must have at least three years' experience in the auditing of accounts. Auditors who fail to meet the aforementioned condition must have a total of at least three years' experience in performing specific activities that do, however, relate to the Company aims and, in any event, relate to the telecommunications sector. The aforementioned article also states that Auditors who are already Statutory Auditors for more than five listed companies may not be appointed as Auditors.

Chief Operating Officer

On 2 March 2004 the Board of Directors appointed Rudolf Derk Huisman—already Chief Executive Officer for the Benelux and Scandinavia area of the Tiscali Group and a member of the Management Committee—as Chief Operating Officer of the Company, investing him with full authority in respect of the ordinary management of Company and Group activities.

Committees

Remuneration Committee

In March 2001 the Company's Board of Directors set up its own internal Remuneration Committee, as laid down by article 8 of the Code. The Remuneration Committee was re-formed during the Board of Directors' meeting held in May 2002, subsequent to the Shareholders' Meeting of April 2002 which appointed the new members of Board of Directors who are currently in post. On 13 November 2003, following the resignation of Elserino Piol, the Board of Directors appointed a new Committee member. Today, the aforementioned Committee is made up of Mario Rosso, as Chairman, Renato Soru and Victor Bischoff.

The Board of Directors has approved Remuneration Committee Regulations specifying that the Committee should comprise three members selected primarily from non-executive Board members. A Chairman is elected internally, from amongst the Committee members, by majority vote. The Committee makes proposals to the Board of Directors regarding remuneration for Chief Executives and those holding special posts as well as, as directed by the Chief Executives, for the determination of remuneration criteria for the Company's top management. The Committee is also authorised to make proposals regarding the Company's stock option plans and their implementation. Within the scope of its own powers, the Committee may make use of external consultants, paid for by the Company. The Committee meets when the need arises, at the request of one or more members. Where compatible, the provisions of the Company's Articles of Association apply to convocation and meeting procedures.

Appointment Committee

The Board of Directors, as highlighted in section 1.6 of this Report, has not deemed it necessary to set up an Appointment Committee in so far as the voting list system as defined in article 11 (Board of Directors) of the Company's Articles of Association, ensures the protection of minority Shareholders' rights. In addition, the voting list system requires proposals for the appointment of Directors to be submitted by Shareholders subject to candidates' suitability.

Internal audit

The Board of Directors complying with the Code and with recommendations from Borsa Italiana, updated the Company's internal audit procedures and sets up an Internal Audit Committee, to provide advice and recommendations, made up of non-executive Directors the majority of whom are independent. Committee meetings are attended by the Chairman of the Board of Statutory Auditors, or by another Statutory Auditor designated by him.

Specifically, the Internal Audit Committee is responsible for:

a) helping the Board of Directors set guidelines for the internal audit system and periodically confirm its appropriateness and proper functioning, ensuring that the main business risks are identified and adequately managed;

b) evaluating the plan of work devised by Internal Audit Co-ordinator and receiving the Co-ordinator's periodic reports;

c) verifying, together with the Company's Directors and external auditors, the appropriateness of the accounting principles and their uniformity for purposes of drafting the consolidated financial statements;

d) evaluating accounting firms' bids for the role of external auditor, and the plan of work and the results expressed in the report and the letter of recommendations, as well as managing day-to-day contact with the external auditor;

e) evaluating bids for consulting assignments presented by the external auditor—or by its affiliates—with regard to companies in the Tiscali Group;

f) evaluating all bids of significant amounts for consulting assignments at Group companies;

g) reporting to the Board of Directors on the work performed and the adequacy of the system of internal audit; this report should be made at least every six months, upon approval of the annual and half-yearly reports;

h) operating as a Supervisory Body pursuant to Legislative Decree 231 of 2001;

i) performing additional tasks as assigned by the Board of Directors.The Internal Audit Committee is a subset of the Board of Directors, its sole functions being to advise and recommend.

The Internal Audit Committee has three members. They are all non-executive Directors, and as such are qualified to provide autonomous, unconditioned opinions regarding the subject matter for which they are responsible, since they have no first-hand involvement in running the Company.

The majority of members must be independent, in accordance with the Instructions for the Regulation of the Nuovo Mercato organised by Borsa Italiana. If it is not possible to ensure that the majority of Committee members are non-executive and independent Directors, the number of members is reduced to two (including one independent Director) until the Committee can be re-formed with a new member who fulfils the independence requirement. That solution is preferable to having a majority of non-independent Directors on the Committee even as a temporary measure. During any period in which the Internal Audit Committee operates with two members only, the entire Board of Auditors shall be invited to attend all its meetings. Furthermore, during any such period in the event that a majority cannot be reached the independent Director shall have the casting vote.

The Chief Executive may attend Committee meetings only if explicitly invited to do so, as he is authorised to intervene on the issues at hand and to determine appropriate action to deal with existing or potential problems.

The Chairman of the Internal Audit Committee may invite other parties to the Committee meetings, such as the external auditors, the Chief Operating Officer or the Chief Financial Officer, but only in relation to specific items of the agenda for which their input may be useful.

The meetings of the Internal Audit Committee are called at least every six months by the Committee Chairman. The announcement must specify the place, date and time of the meeting, the items on the agenda and the names of all external parties invited to attend.

The Internal Audit Committee is made up of two members: Victor Bischoff (Chairman), a non-executive Director, and Tomaso Barbini, a non-executive, independent Director.

Other committees

On 2 March 2004 the Board of Directors approved the creation of an International Co-ordination Committee and improved its definition of the duties and composition of the Management Committee, with the aim of supporting the Chief Operating Officer in the operation of the Company, and in consideration of the size and significance of the Tiscali Group in Europe.

Both Committees, comprising top Company and Group managers, are responsible for co-operating with the Board of Directors to examine and approve the Group's strategic, industrial and financial plans, and with the Chief Operating Officer in co-ordinating general policy guidelines and assessing targets met in relation to the budget and the business plan.

Internal audit system

The Director responsible identifies the main business risks, submits them to the attention of the Board of Directors and implements the Board's recommendations by developing, managing and monitoring the internal audit system, for which a Co-ordinator is appointed and equipped with the necessary means.

The Internal Audit Co-ordinator has no line manager, and reports directly to the Chief Executive, the Internal Audit Committee and the Board of Statutory Auditors.

The Internal Audit Co-ordinator is appointed by the Chief Executive, at the recommendation of the Internal Audit Committee. The advisory role of the Internal Audit Committee is a further safeguard of the professionalism and independence of the Internal Audit Co-ordinator.

International theory and practice recommend that the Internal Audit Co-ordinator be in charge of verifying the adequacy and proper functioning of the internal audit system and, in the event that it is found to be deficient, of suggesting corrective action. Implementation of improvements to the internal audit system, as recommended by the Co-ordinator, is the responsibility of the individual departments of Tiscali S.p.A. or other companies in the Group, on the basis of instructions from the Board of Directors.

Given the above, the Internal Audit Co-ordinator has been defined as the person with operational responsibility for co-ordinating the activities of the Internal Audit department. This ensures professionalism and methodological efficiency, while maximising the Co-ordinator's independence from the Company's organisational units, in respect of which his actions are fully autonomous.

The Internal Audit Co-ordinator reports to the Chief Executive, the Internal Audit Committee and the Board of Auditors at least once every three months.

The Board of Directors, on the basis of inspections carried out and in consideration of the improvements being pursued, has found the internal audit system to be adequate in relation to the Company's needs and to laws in force.

Adaptation to Legislative Decree 231 of 2001

During the second half of 2003 the Company initiated a project to adapt its Corporate Governance model to the standards contained in Legislative Decree 231 of 2001. This decree extends liability for offences committed, under certain conditions, from the individuals who work for the Company to the Company itself. The offences in question are essentially corporate violations (including, for example, false reporting) and offences against public officials (such as extortion and bribery). The Company is not liable for offences committed by its employees if it can prove that it adopted suitable procedures for preventing the offences addressed by the decree, and that it diligently ensured their implementation.

A leading consulting firm with specialised expertise in the matter has been hired to oversee this project. The risk assessment phase has been completed, and on the basis of its results the Company has nearly finished drafting the protocols and procedures required by Legislative Decree 231. The entire project is expected to be concluded by the time the half-yearly report to 30 June 2004 is approved. The Internal Audit Committee is responsible for monitoring observance of the protocols and procedures.

Related parties

It is Company practice to keep transactions with related parties to a minimum. Any transactions of this nature that are carried out are conducted in such a way as to ensure compliance with legal and procedural standards pursuant to article 11.1 of the Code.

When transactions with related parties that may involve a direct or indirect interest of a Director are approved, the Director(s) concerned must inform the Board of Directors of his (their) interest and abstain from voting, as recommended in article 11.2 of the Code.

Lastly, pursuant to article 14 of the Company's Articles of Association (Powers of the Board of Directors), the Board of Directors must report in writing, either by post or by electronic mail, to the Board of Auditors, any transactions that constitute potential conflicts of interest.

Handling of confidential information and communications with the market; Investor Relations Office

Regarding the procedure for supervising the management of confidential information, the Company has long followed national and international best practices, which are consistent with the principles contained in the Guidelines for Disclosing Information to the Market. To ensure that information is properly disclosed, the Company acts in accordance with the 10 principles set forth in the Guidelines, undertaking to communicate with the market in a way that ensures fairness, clarity, equality and timeliness of access to information.

The Company has an Investor Relations Office in charge of communicating with institutional investors and other Shareholders. Among its other duties, the Investor Relations Office—which reports directly to the Chief Financial Officer—writes press releases and has them distributed, including via a network of companies that carry out these activities professionally.

Directors, Statutory Auditors, the Investor Relations Manager and all other employees are required to treat as confidential all price-sensitive documents and information that they have acquired because of their position or in the course of performing their duties, unless the documents or information have already been made public in the prescribed forms. The persons listed above are also prohibited from granting interviews to the press and from making any public statements containing information on important events that could be considered price-sensitive, and which has not appeared in press releases or documents already made public, or been expressly authorised by the Investor Relations Office.

In addition, the Company adopted an Internal Dealing Code on 12 November 2002, in compliance with articles 2.6.3, 2.6.4 and 2.6.4 bis of the Nuovo Mercato Regulations, and promptly informed the market of this fact. The Internal Dealing Code (see Appendix 2 to this Report) identifies the persons with disclosure obligations, defines the transactions that must be disclosed and sets out the related disclosure obligations of interested parties and the Company itself, as well as the penalties that apply if the Company breaches the code. In 2003 and at the date of this Report in 2004, no transactions have been reported requiring disclosure due to their amount.

Stock Option

As of 31 December 2003 none of the options assigned under the stock option plan that expired in September 2003 had been exercised. As a result, the capital increase approved at the shareholders' meeting held on 12 March 2001 and valid for five years, has not been carried out.

As at the date of this report, no new stock option plans for employees had been put in place.

Shares held by directors and statutory auditors

As required by law, including article 79 of Consob regulation 11971/99 implementing Legislative Decree 58/1998, the table below shows the number of shares held by directors and auditors.

NAME - SURNAME	POSITION	NO OF SHARES HELD AS OF 31.12.03	NO OF SHARES PURCHASED	NO OF SHARES SOLD	NO OF SHARES HELD AS OF 31.12.02
Board of Directors					
Renato Soru	Chairman and Chief Executive	108,100,000	-	-	108,100,000
Franco Bernabè	Director	-	-	-	-
Tomaso Barbini	Director	-	-	-	-
Mario Rosso	Director	-	-	-	-
Victor Bischoff	Director	-	-	-	-
Gabriel Pretre	Director	-	-	489	489
Mario Rosso	Director	-	-	-	-

NAME - SURNAME	POSITION	NO OF SHARES HELD AS OF 31.12.03	NO OF SHARES PURCHASED	NO OF SHARES SOLD	NO OF SHARES HELD AS OF 31.12.02
Board of Statutory Auditors					
Aldo Pavan	Chairman	-	-	-	-
Massimo Giaconia	Statutory Auditor	-	-	-	-
Piero Maccioni	Statutory Auditor	-	-	-	-
Andrea Zini	Deputy Auditor	2,054	-	-	2,054
Rita Casu	Deputy Auditor	50	-	-	50

Renato Soru

For the Board of Directors
The Chairman

Renato Soru

Parent Company: operating performance

In 2003, the parent Company reported value of production of EUR 180 million, an increase of 28% on the previous year, with growth in all business areas. In particular, access revenues rose by 44% versus the previous year, as 50% of dial-up traffic switched to the single national number (702), and the broadband (ADSL and satellite) customer base expanded significantly. Voice revenues also recovered, following a relaunch of the retail services.

Tiscali S.p.A. made an EBITDA loss of EUR 7.6 million in 2003, although this was a marked improvement on the EUR 30.2 million loss posted the previous year.

At the bottom line, the parent Company made a net loss of EUR 114.5 million, after posting substantial amortisation, depreciation and write-down charges. However, this was also an improvement on the 2002 figure of EUR -152.3 million. The growth prospects confirmed by the parent Company's performance in early 2004 point to further improvements in both gross and net profit this year.

The table below shows key profit and loss account figures.

IN EUR MILLIONS	2003	2002	% CHANGE
Revenues	180.3	140.8	+28%
Operating costs	(187.9)	(171.0)	+10%
EBITDA	(7.6)	(30.2)	-75%
Depreciation, amortisation and provisions	(66.0)	(65.0)	+2%
EBIT	(73.6)	(95.2)	-23%
Financial income (charges)	(2.3)	33.2	-107 %
Extraordinary income (charges)	3.2	(19.0)	+117%
Write-downs	(41.8)	(71.3)	-41%
Profit (loss) before tax	(114.5)	(152.3)	-25%
Tax	-	-	-
Net profit	**(114.5)**	**(152.3)**	**-25%**

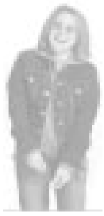
Sales breakdown: parent Company

REVENUES (IN EUR MILLIONS)	2003	2002	% CHANGE
Access	99.8	67.4	+44%
Portal	14.0	20.0	-30%
B2B	8.4	6.5	+30%
Voice	29.5	20.6	+43%
Other	28.6	26.3	+9%
Total	**180.3**	**140.8**	**+28%**

Access

Access revenues came in at EUR 99.8 million (+44% versus 2002), representing 48% of total revenues.

The increase compared to the previous year was driven by growth in ADSL user numbers and migration to a single national number (702) in the narrowband segment, as this generates substantially higher revenues (instead of receiving kickbacks from incum-



bents, Tiscali invoices end users directly). Active narrowband users now number around 1.6 million (against 1.4 million at end-2002), although traffic minutes fell from 9.2 billion in 2002 to 8.7 billion in 2003. However, the fall in traffic minutes is due to higher ADSL user numbers (mostly consisting of more affluent consumers), from 28,000 at end-2002 to over 108,000 at end-2003, boosting Tiscali's share of the broadband market.

ADSL revenues soared by 130% to EUR 16 million, from EUR 7 million in 2002.

Portal

The contribution of portal revenues (advertising and e-commerce) fell from 14.4% of the total in 2002 to 7.7% in 2003, or from EUR 20 million to EUR 14 million. The decrease was due to the cancellation of reciprocal advertising agreements providing ad space to promote Tiscali services, and the ending of agreements under which the parent Company acted as an agency for Group companies in other European countries.

However, Tiscali remained a market leader on the online advertising market.

Business services

Revenues from business services were up 29% versus the previous year, at EUR 8.4 million. The increase was largely due to a number of projects carried out in conjunction with the public sector.

Voice

Voice revenues jumped 43% versus 2002 to EUR 29 million, driven by sales of services to other operators and the relaunch of retail voice services.

Operating costs

Operating costs totalled EUR 187.9 million, a 10% increase on 2002 (EUR 171 million), compared with a 28% rise in value of production. As a result, costs fell as a proportion of revenues from 121% in 2002 to 104% in 2003.

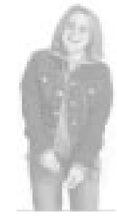
In particular, line and port rental costs rose by 40% versus 2002, while traffic acquisition costs shot up by 190%. Against these increases, narrowband and voice revenues went up by 44% and 43% respectively.

These costs also rose as a proportion of revenues, from 26% in 2002 to 40% in 2003, because of migration from dial-up connections using local phone numbers to the national 702 number, as well as the growth in ADSL and voice services.

Sales and marketing costs fell substantially due to a drop in advertising expenses, as the parent Company no longer acts as an agency for the other subsidiaries. Spending on advertising for the launch of the new ADSL services was substantial, totalling EUR 3 million in the first half of the year alone (these are capitalised costs).

Personnel costs (18% of revenues, versus 20% in 2002) rose by EUR 5.4 million to EUR 33 million (+20%), as the headcount increased from 755 at 31 December 2002 to 861 as of 31 December 2003 (+14%). This item also includes staff employed in holding Company activities. Apart from the rise in headcount, these costs expanded because of salary increases and the ending of a special rate for social security contributions, which rose by 38% as a result.

Depreciation, amortisation and provisions edged up slightly from EUR 65 million in 2002 to EUR 66 million in 2003. As of 31 December 2003, this item related to depreciation of tangible assets and amortisation of intangible assets totalling around EUR 29 million, write-downs of receivables listed under current assets of EUR 22.5 million and risk provisions of EUR 14.4 million.



The negative balance of financial income and charges (EUR -2.3 million) relates to interest on bank loans. This figure was positive in 2002 (EUR 33 million) because of a number of one-off items.

The balance of extraordinary income and charges was positive at EUR 3.1 million (income: EUR 20.6 million; charges: EUR 17.5 million), versus EUR -19 million in 2002.

Financial position and performance of the parent Company

IN EUR MILLIONS	31.12.2003	31.12.2002	% CHANGE
Non-current assets	2,148.7	2,187.3	(2)%
Current assets	189.4	250.1	(24)%
Total assets	**2,338.1**	**2,437.4**	**(4)%**
Shareholders' equity	1,576.6	1,661.5	(5)%
Risk provisions and staff severance fund	27.7	57.6	(52)%
Liabilities	733.8	718.3	2%
Total net liabilities	**2,338.1**	**2,437.4**	**(4)%**

The value of total non-current assets fell by 2% versus the previous year, owing to write-downs made to certain equity investments and the depreciation process.

Short-term net debt stood at EUR 28.1 million against EUR -29.5 million as of 31 December 2002. Gross debt as of 31 December 2003, including medium-/long-term bank debt, showed a EUR 60 million increase on the figure at 31 December 2002 (EUR -42.3 million). Financial movements, shown in detail in the parent Company's cash flow statement, were affected by operations, financial management and extraordinary items, as well as investment activities.

Parent Company investments

The parent Company invested a total of EUR 47.1 million over the year, including leasing operations worth EUR 0.2 million. Investment in tangible and intangible assets was EUR 34.2 million and EUR 12.9 million respectively, mainly spent on expanding production capacity, particularly the growth of ADSL services, and on carrying out necessary network upgrades (ie the extra bandwidth per client with ADSL services compared to dial-up).

Significant events taking place after year end

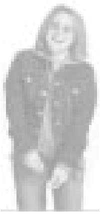
No significant events took place in the first few months of 2004.

However, the Company received a VAT refund in January for EUR 8.8 million.

The Company's performance in the first few months of 2004 was in line with both revenue and profit targets.

Outlook

Operations for the early part of the year have so far matched expectations. Substantial growth in ADSL has been achieved, partly thanks to government support in encouraging the take-up of broadband. Voice services have also surged ahead following a commercial relaunch.



The main objective for 2004 is to consolidate and increase market share in Italy and the rest of Europe in Internet access services, at the same time increasing the profitability of all business units. The key market remains broadband, and the second half of the year should see the launch of ADSL services and voice services over the local loop, which is expected to improve profitability.

Market developments in the ULL process will require investment in equipment and marketing to expand the broadband customer base.

For more information, please refer to the Outlook section on the Tiscali Group as a whole.

Renato Soru

For the Board of Directors
The Chairman

Renato Soru

Balance Sheet Assets

EUR/000

			Assets	Due → 12 Months 31.12.2003	Due → 12 Months 31.12.2002	31.12.2003	31.12.2002
A)			**Capital contributions due from shareholders**				
			Portion not called up				
			Other shareholders			-	28
			Capital contributions due from shareholders			**-**	**28**
B)			**Non-current assets**				
	I		**Intangible assets**				
		1)	Start-up and expansion costs			2,602	5,281
		2)	Research, development and advertising costs			8,987	38,000
		3)	Industrial patent rights and intellectual property rights			28,195	3,686
		4)	Concessions, licenses, trademarks and similar rights			159,358	141,933
		5)	Goodwill			208	160
		6)	Payments on account and intangible assets in course of acquisition			1,979	6,161
		7)	Other			10,666	13,005
		8)	Consolidation difference			503,908	540,987
			Intangible assets			**715,903**	**749,213**
	II		**Tangible assets**				
		1)	Land and buildings			30,947	11,224
		2)	Plant and machinery			171,838	224,461
		3)	Industrial and commercial equipment			767	636
		4)	Other tangible assets			40,491	41,306
		5)	Payments on account and intangible assets in course of acquisition			2,507	9,582
			Tangible assets			**246,550**	**287,209**
	III		**Investments**				
		1)	**Investments in:**				
			a) non-consolidated subsidiaries			714	288
			b) affiliated companies			66	185
			c) parent companies			-	-
			d) other companies			12,547	12,687
		2)	**Receivables**				
			a) Other securities	-	-	-	26,714
			d) Own shares	-	-	8,038	-
		3)	**Other securities**			**-**	**-**
		4)	**Own shares**			**-**	**-**
			Long-term investments			**21,365**	**39,874**
			Non-current assets			**983,818**	**1,076,296**

Balance Sheet Assets

EUR/000

			Assets	Due → 12 Months 31.12.2003	Due → 12 Months 31.12.2002	31.12.2003	31.12.2002
C)			**Current assets**				
	I						
		1)	Raw materials, supplies and consumables			3,171	6,310
		3)	Contract work in progress			1,431	-
		4)	Finished products and goods			4,914	-
		5)	Advance payments			390	
			Inventories			**9,906**	**6,310**
	II		**Receivables**				
		1)	Receivables from customers	-	-	173,152	190,572
		2)	From non-consolidated subsidiaries	-	-	6,808	830
		5)	Other receivables	2,439	2,589	124,083	38,631
			Receivables	**2,439**	**2,589**	**304,043**	**230,033**
	III		**Short term financial assets**				
		1)	Holdings in non-consolidated subsidiaries			-	3,209
		6)	Other securities			69,038	124,187
			Short term financial assets			**69,038**	**127,396**
	IV		**Cash and cash equivalents**				
		1)	Bank and post office deposits			203,544	209,564
		2)	Cheques			-	3
		3)	Cash and other negotiable instruments			-	3
			Cash and cash equivalents			**203,544**	**209,570**
			Current assets			**586,531**	**573,309**
D)			**Accrued income and deferred charges**				
			Accrued income			40,117	13,622
			Deferred charges			50,795	28,250
			Accrued income and deferred charges			**90,912**	**41,872**
			Assets			**1,661,261**	**1,691,505**

Balance Sheet Liabilities

EUR/000

		Liabilities	Due → 12 Months 31.12.2003	Due → 12 Months 31.12.2002	31.12.2003	31.12.2002
A)		**Shareholders' equity**				
		Total shareholders' equity (Group)				
	I	Share capital			184,460	180,867
	II	Share premium reserve			1,506,686	1,632,896
	III	Revaluation reserve			-	-
	IV	Legal reserve			-	-
	V	Reserve for own shares held			-	-
	VI	Statutory reserves			-	-
	VII	Other reserves				
		Currency translation reserve			(32,184)	(28,613)
		Previous profit (losses) of subsidiaries			(997,294)	(575,977)
	VIII	Retained earnings (losses carried forward)			-	-
	IX	Profit (loss) for the year			(242,448)	(593,145)
		Shareholders' equity (Group)			**419,220**	**616,028**
	XI	Minority interest			6,336	16,309
		Total Shareholders' equity			**425,556**	**632,337**
B)		**Provisions for risks and charges**				
	1)	Pension provisions and similar obligations			-	-
	2)	Tax provisions			-	100
	3)	Other			27,011	20,059
		Reserves for risks and charges			**27,011**	**20,159**
C)		**Staff severance indemnity reserve**			**10,850**	**7,002**
D)		**Payables**				
	1)	Bonds	459,500	400,000	540,684	409,211
	2)	Convertible bonds	-	-	-	-
	3)	Due to banks	33,503	12,460	71,495	59,306
	4)	Due to other lenders	28,357	46,941	43,551	62,929
	6)	Payables to suppliers	-	-	310,647	306,676
	8)	Due to non-consolidated subsidiaries	2,210	-	2,210	4,482
	9)	Due to affiliated companies	54	-	54	468
	11)	Taxes payable	-	11,483	29,055	32,375
	12)	Due to social security agencies	-	-	10,729	10,726
	13)	Other payables	15,203	9,025	36,148	12,142
		Payables	**538,827**	**479,909**	**1,044,573**	**898,315**
E)		**Accrued liabilities and deferred income**				
		Accrued liabilities			77,612	66,684
		Deferred income			75,659	67,008
		Accrued liabilities and deferred income			**153,271**	**133,692**
		Liabilities			**1,661,261**	**1,691,505**

Memorandum Accounts

EUR/000

Memorandum Accounts	31.12.2003	31.12.2002
GUARANTEES RECEIVED		
Sureties	1,826	2,448
Collateral securities	-	1,571
Total guarantees received	**1,826**	**4,019**
COMMITMENTS	**-**	**-**
Warrants	-	183
Commitments	13,578	11,060
Total commitments	**13,578**	**11,243**
GUARANTEES GIVEN		
Sureties	18,332	254,829
Collateral securities	-	3,612
Total guarantees given	**18,332**	**258,441**

Profit&Loss Accounts

EUR/000

		Profit&Loss Accounts	31.12.2003	31.12.2002
A)		**Value of production**		
	1)	Revenues from sales and services	894,919	739,312
	2)	Changes in inventories of work in progress, semi-finished and finished products	4	-
	3)	Changes in contract work in progress	1,431	-
	4)	Increases in assets for work in progress (internal)	1,794	153
	5)	Other income	2,874	8,893
		Value of production	**901,022**	**748,358**
B)		**Production costs**		
	6)	Raw materials, supplies and consumables	(5,005)	(12,034)
	7)	Services	(641,399)	(572,172)
	8)	Use of third-party assets	(29,405)	(13,837)
	9)	Personnel costs		
		a) Wages and salaries	(107,286)	(111,462)
		b) Social security contributions	(22,577)	(20,290)
		c) Staff severance indemnity	(4,790)	(3,400)
		e) Other costs	(7,413)	(4,900)
	10)	Depreciation, amortisation and write-downs		
		a) Amortisation of intangible assets	(131,724)	(253,560)
		b) Depreciation of tangible assets	(94,899)	(117,376)
		c) Other write-downs of non-current assets	(50,421)	(4,342)
		d) Write-downs of receivables included in current assets and cash and cash equivalents	(16,591)	(23,293)
	11)	Changes in inventories of raw materials, supplies and consumables	(388)	(177)
	12)	Risk provisions	(9,741)	(2,242)
	13)	Other provisions	(223)	-
	14)	Other operating expenses	(8,030)	(9,104)
		Production costs	**(1,129,892)**	**(1,148,189)**
(A - B)		**Difference between value of production and costs**	**(228,870)**	**(399,831)**
C)		**Financial income and charges**		
	15)	**Income from equity investments**		
	16)	**Income other than the above**		
		a) From receivables listed under non-current assets		
		From Group companies	25	-
		From affiliated companies	7	619
		b) From securities listed under non-current assets other than equity investments	303	4
		c) From securities listed under current assets other than equity investments	-	941
		d) Earnings other than the above		
		From third parties	52,987	70,073
		From non-consolidated subsidiaries	-	24,053
		From affiliated companies	-	2,376
	17)	**Interest and other financial charges**		
		a) From third parties	(73,885)	(87,932)
		b) From Group companies	(26)	-
		Financial income and charges	**(20,589)**	**10,134**

Profit&Loss Accounts

EUR/000

		Profit&Loss Accounts	31.12.2003	31.12.2002
D)		**Adjustments to the value of financial assets**		
	18)	**Write-ups**		
		a) Of equity investments	749	-
	19)	**Write-downs**		
		a) Of equity investments	-	(81,088)
		Adjustments to the value of financial assets	**749**	**(81,088)**
E)		**Extraordinary income (charges)**		
	20)	**Extraordinary income**		
		a) Income	61,603	92,122
		b) Capital gains from disposal of non-current assets	976	-
	21)	**Extraordinary charges**		
		a) Charges	(107,460)	(209,691)
		b) Capital losses from disposal of non-current assets	(1,975)	(1,527)
		c) Taxes relating to previous years	-	-
		Extraordinary income (charges)	**(46,856)**	**(119,096)**
		Profit (loss) before tax	**(295,566)**	**(589,881)**
	22)	**Income tax**		
		a) Current taxes	(2,035)	(2,796)
		b) Deferred taxes	51,619	(92)
		Net Profit (loss) for the year before minority interest	**(245,982)**	**(592,769)**
		Minority interests	3,534	(376)
		Net Group profit (loss)	**(242,448)**	**(593,145)**

Renato Soru

For the Board of Directors
The Chairman

Renato Soru

TISCALI GROUP: NOTES TO THE CONSOLIDATED ACCOUNTS

(the amounts are expressed of EUR/000)

Form and content of the consolidated annual accounts

1) Criteria used in the preparation of the accounts

The consolidated accounts have been prepared in accordance with art. 25 and subsequent articles of Legislative Decree 127/91 and consist of the balance sheet, the profit and loss account and the notes to the accounts.

These notes are intended to illustrate, analyse and supplement the accounting data. They contain the information required by art. 2427 of the Italian civil code and other legislation in force.

Furthermore, they provide all the additional information necessary to give a true and fair representation of the Group's financial position and its results.

The criteria used in the preparation of the accounts have been integrated and interpreted in accordance with the accounting principles of the Italian association of chartered accountants (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri).

For ease of comparison, the accounts contain figures for the 2002 financial year, which have been prepared and presented in a consistent and coherent manner.

The following documents are supplied as supplementary information:

- restated consolidated balance sheet (management discussion);
- restated consolidated profit and loss account (management discussion);
- consolidated cash flow statement (notes to the consolidated accounts).

2) Consolidation area

The consolidated accounts of the Tiscali Group include the accounting statements of the parent Company and those of all Italian and foreign companies where Tiscali—either directly or indirectly—controls the majority of votes exercisable at ordinary shareholders' meetings, all companies where an agreement or clause in the articles of association makes Tiscali the dominant shareholder in compliance with applicable legislation, and all companies where Tiscali itself controls a majority of votes thanks to agreements with other shareholders.

The consolidation area has changed since 31 December 2002 following certain minor operations carried out as part of the Group's reorganisation. The basis of consolidation changed during 2003 because of the acquisitions listed below (see the Report on operations for more detail):

- Wanadoo Belgium S.A. (now Tiscali Integration S.A.) acquired in the first quarter of 2003;
- Tiscali Internet Ltd, which was created to incorporate a dial-up user base acquired by the Group, became part of Tiscali UK Ltd as of 31 December 2003;
- Nextra S.p.A. (now Tiscali Business Solutions S.p.A.), a Company specialising in business services, acquired in the first quarter of 2003;
- the ISP division of Airtelnet Movil S.A. acquired by Spanish subsidiary Tiscali España;
- Swedish ISP @Home S.A.;

• EUnet EDV und Internet Dienstleistungs AG, which incorporated Tiscali Österreich AG at the end of the year and took on its name;

• the business division of Cable & Wireless in France, acquired by Tiscali Telecom S.A., a subsidiary of Liberty Surf;

• a branch of business of npower, acquired by Tiscali UK Ltd.

Tiscali Armement Sarl, a Company that managed a yacht used for promotions, was sold in December 2003 and is therefore not included in the basis of consolidation.

Excluded from the consolidated accounts are all subsidiaries whose accounting statements would have no material impact on the values shown, subsidiaries held solely with a view to their future disposal, and all non-operating subsidiaries. Stakes in non-consolidated subsidiaries that constitute non-current assets and stakes held in affiliated companies of a significant size are valued at equity. Affiliated companies are those where Tiscali S.p.A.—either directly or indirectly—controls one fifth of the votes exercisable at ordinary shareholders' meetings or one tenth of the votes if the Company is listed on the stock market.

Stakes in companies valued at equity are listed in these notes. Stakes in non-consolidated subsidiaries that constitute non-current assets and stakes in affiliated companies that have no material impact on Group results are valued at cost, and are also listed in these notes.

3) Accounting reference date

The consolidated accounts were prepared using the draft accounting statements approved by the boards of directors of Group companies, or if these were not available, they were based on the accounting data provided and approved by the management of each of the companies in accordance with the Group's consolidation procedures.

4) Consolidation principles

The accounting statements used for consolidation have been prepared in accordance with the accounting principles and valuation criteria of the parent Company, which comply with the rules set out in art. 2423 and subsequent articles of the Italian civil code, and the accounting principles issued by the Italian association of chartered accountants.

The accounts of the companies included in the basis of consolidation are reported using the global integration method. The following adjustments were made for consolidation purposes:

a) the book value of stakes held in consolidated companies is eliminated in respect of the corresponding proportion of shareholders' equity;

b) any negative differences that are not the result of adverse forecasts are booked under the consolidation reserve shown under consolidated shareholders equity; as for any positive differences, the portion not attributable to subsidiaries is booked under assets as a consolidation difference and treated as goodwill;

c) profits and losses arising from transactions carried out between Group companies and still listed on the balance sheet are eliminated, as are any credits, debits, costs, revenues and any transactions conducted between consolidated companies;

d) any write-downs or provisions made solely for tax purposes are eliminated;

e) minority interests and net profit attributable to minorities are listed separately under the appropriate items on the consolidated balance sheet and profit and loss account.

5) Translation of items denominated in foreign currency

Balance sheet items not denominated in Eur are converted at the exchange rate in force at the end of the financial year. Items on the profit and loss account are converted into euro at the average exchange rate for the financial year. Any differences between the results for the financial year calculated using average exchange rates and those obtained using year-end exchange rates, and any changes in the value of assets/liabilities resulting from fluctuations in exchange rates during the financial year are recorded under shareholders' equity on the "currency translation reserve" line. Detailed information on the currencies used in the preparation of the consolidated annual accounts is provided in another section of these notes.

6) Accounting policies

a) General criteria

Accounting principles and policies have been applied in a uniform manner to all consolidated companies. The accounting policies adopted in preparing the consolidated annual accounts are the same as those used by the parent Company Tiscali S.p.A., and conform to those stipulated in the aforementioned prevailing regulations. These criteria have been integrated and interpreted in accordance with the accounting principles issued by the Italian association of chartered accountants, supplemented by IFRS accounting principles where appropriate. The same criteria are used as in previous years, particularly with regard to valuations and continuity in applying the same principles. The valuation of balance sheet items was performed based on general criteria of prudence and competence, on a going concern basis. With regard to this, please note the following.

a.1) Going concern basis

These accounts were prepared on a going concern basis, since, as referred to in the Report on operations, the prospects for the sector in which Tiscali operates and its competitive position, mean that the Group's target of achieving a better financial structure is well within its grasp, as the business plans, the disposals programme for non-core assets and the refinancing strategy indicate. In particular, attainment of the targets set out in the strategic plan, including the disposals, represent a key factor in the development of Tiscali's financial position and the stability of its businesses and finances; this would consequently ensure the Group is able to redeem the next bond issues falling due and comply with the related covenants, and will be able to raise the finances necessary to sustain growth, particularly in broadband services.

The Company's position as a going concern is also supported by the substantial improvement in results achieved in 2003, and by the expectations of further substantial and ongoing advances in 2004 and subsequent years, as set out in the business plan, which was drawn up based on assumptions that take into account the information currently available on market trends. Specifically, the Company's plans point to the generation of cash flow from the second half of 2004 (last four months) and the attainment of a net profit in 2005.

a.2) Other general criteria

For the purposes of accounting entries, the economic substance of transactions prevails over their legal form. Investments are therefore booked at the time of payment. Profits are included only if they are recorded within the period under review, while provision is made for risks and losses that may come to light at a later date. Miscellaneous items included under single accounting entries have been valued separately. Assets destined for long-term use have been listed under non-current assets.

b) Write-downs and write-backs

The value of fixed and intangible assets whose useful life is limited over time is written down respectively through depreciation and amortisation charges. These fixed and intangible assets, and any other assets, are written down each time a permanent loss of value is noted; but if the reasons for the loss of value are considered to no longer apply, then the original value is re-established. The method for calculating depreciation and amortisation charges is explained separately in these notes.

c) Write-ups

The value of tangible and intangible assets does not include write-ups.

d) Exceptions

No exceptions to the accounting policies set out in the legislation pertaining to consolidated accounting statements have been made in this, or any other financial year.

e) Accounting entries made solely in application of tax laws

No accounting entries have been made solely in application of tax laws.

f) Intangible assets

“Start-up and expansion costs” are entered under the appropriate accounting entry on the assets side of the balance sheet and are amortised for a period not exceeding five years starting from the financial year in which the costs were incurred.

“Research, development and advertising costs” are posted under the appropriate line item under “assets” and amortised over a five-year period starting from the financial year in which they were incurred, since such costs may generate profits over a number of years. Costs incurred in 2003 relating to specific advertising campaigns for the launch of new broadband products and services are posted under the appropriate line under “assets” and amortised using the straight-line method over a two-year period starting from the financial year in which they were incurred, since such costs may generate profits over a number of years.

“Industrial property rights and intellectual property rights” are recorded at their acquisition cost and amortised using the straight-line method in accordance with the period of use established by the agreement. Under no circumstances shall the amortisation period exceed five years from the financial year in which the costs were incurred.

“Concessions, licences, trademarks and similar rights” are recorded at their acquisition cost and are amortised over five years. For contracts lasting over five years, mainly relating to the purchase of IRUs (indefeasible right of use) for networks and/or fibre optics, depreciation is calculated using the straight-line method, either over the remaining life of the agreement or the estimated residual life of the right, whichever is the shorter.

“Other intangible assets” are recorded at their purchase or internal production cost, including any additional charges, and amortised in fixed amounts.

“Goodwill” is recorded only if acquired for a substantial amount, within the limits of the costs incurred, and amortised over a period not exceeding the duration of the asset’s use. Where this cannot be estimated, goodwill on such assets shall be amortised over a period not exceeding five years.
Maintenance and upgrade costs on third-party assets are included under “other intangible assets" and amortised using the straight-line method over either the estimated useful life of the asset or the remaining term of the lease, whichever is the shorter.

Consolidation difference

Consolidation differences are recorded in the consolidated accounts when the book value of a stake in a Company is offset against the Group’s portion of the shareholders' equity of that Company. Any significant positive balance not attributable to single entries under the assets of consolidated companies is recorded as an adjustment to the value of consolidated shareholders' equity, or, when the necessary requirements are met, booked under "consolidation difference" on the assets side of the balance sheet and amortised over the period in which it is expected to produce economic benefits, taking into account the type of activity of the Group companies to which this difference refers.

At the end of the year, Tiscali reviewed the residual useful life of the consolidation difference, which had already been subject to extraordinary write-downs in 2001. This assessment was carried out with reference to the amounts attributable to the different Group companies, largely corresponding to the various countries and geographical areas in which the Group operates, and led to a change in the estimated residual life of the consolidation difference.

Specifically, the consolidation difference is now amortised from the date of acquisition of the Company or division over 12 years, compared to five years previously (until 31 December 2002).

This change in the estimated residual useful life of the consolidation difference led to lower amortisation charges in the year ending 31 December 2003 (by around EUR 129.8 million) than those calculated according to the period of estimated use in previous years, thereby increasing the Company’s net result and consolidated shareholders’ equity by the same amount.

The structural conditions that led to the change in the estimated residual life of the consolidation difference relate to the following specific circumstances:

- the current market environment in which the Group operates, both generally and in relation to specific countries, and the related business prospects. In addition, Tiscali has consolidated its business in each country in which it has a presence, and growth indicators for the European Internet access market are positive. The most recent sector studies carried out by leading market research companies forecast a CAGR of 8% in 2002-2007, compared to 2.4% for European GDP growth. Broadband, particularly ADSL, has become a major opportunity for Tiscali (starting from the second half of 2003), and represents the Group’s main growth driver. Tiscali’s market share is expected to rise from 5.3% in 2003 to 15.7% in 2007. This scenario applies in all countries in which Tiscali operates, particularly those in which the local operation’s consolidation difference is substantial;

- connection costs: the former incumbents have a significant presence on Tiscali’s core European markets. However, as the year progresses, these operators are expected to lose market share as the market is gradually liberalised following the intervention of national governments in favour of alternative operators. In a recommendation issued in July 2003, the European Union called on national governments and former incumbents to open up the Internet access market;

- the results achieved by the various companies within the Group and the prospects set out in the business plan, which project a further significant improvement in the Group’s financial situation, including free cash flow generation in the short to medium term. All business units in the various countries in which the Tiscali Group operates have improved their performance, confirming that the business is now established;

- completion of the restructuring process and optimisation of the Group structure. As explained in the Report on operations, the rationalisation of the Group (now complete) has generated significant synergies and economies of scale, and has had a knock-on effect both on Tiscali’s business management and market presence. It has also extended the reference period for the local management and the Group as a whole.

In light of these circumstances, the business risk connected to the Group's activities may be considered to be substantially lower than in previous years, which means that the estimated residual life of the consolidation difference can be extended.

In respect of the extension of the amortisation period, an impairment test was carried out to update the valuation of the consolidation difference, based on an analysis of the value of the Group companies to which this item refers, using a discounted cash flow calculation based on the business plan for all business units in each country in which Tiscali operates. This analysis showed that the net book value of goodwill pertaining to different countries was much lower than the corresponding value derived from the methodology described above. In addition, the board of directors commissioned a report by an independent consultant, who confirmed that there was a significant difference between the value of goodwill estimated on the basis of the business plans for each business unit, and the book value of goodwill recorded for each business unit. The consultant also suggested that an amortisation period of between 10 and 15 years was sustainable for the Group.

Furthermore, from 2005 (but for comparative purposes, from the 2004 accounts), IAS/IFRS accounting principles will be applied, under which (according with the current version, in the draft format) goodwill is no longer amortised. Instead, it is valued each year according to impairment test criteria, for the purposes of checking the book value and ascertaining whether any write-downs should be recorded. In this context, where there is a significant difference between the value of goodwill determined by the impairment test and its book value, it is considered appropriate to increase the goodwill amortisation period, as other sector companies have done.

g) Tangible assets

Tangible assets are recorded at purchase or production cost, including any additional charges.

Depreciation is calculated on a straight-line basis depending on cost and the estimated residual useful life of the asset.

Routine maintenance expenses are charged to the profit and loss account in full. Maintenance expenses of an incremental nature are attributed to the asset to which they refer and depreciated over the estimated residual life of the asset.

Depreciation rates are the same as those for the parent Company:

DEPRECIATION	
Buildings	3 %
Specific plant	20 %
General plant	20 %
Other equipment	12 %
Other tangible assets	20 %

For the purpose of preparing the 2003 accounts, the Group commissioned an independent consultant to assess the estimated residual life of key equipment, specifically IP and Ethernet network equipment (commercially known as routers and L3/L2 switches), with particular reference to its roll out at the data centres—from where the Group supplies its Internet services—of Tiscali S.p.A. and its subsidiaries. This report put the useful life of these assets (with the same technical specifications and used for the same purposes) at five years, and has allowed Tiscali to harmonise depreciation rates for this equipment at 20% (the rate previously applied by the parent Company) across the various Group companies.

This has led to a change in the estimated residual life of specific equipment belonging to certain Group companies, thereby reducing amortisation charges by around EUR 12.1 million in 2003, and increasing net result and consolidated shareholders' equity by the same amount.

In the year in which an asset is purchased, the depreciation charge is reduced by 50 per cent. This accounting approach is deemed to provide a reasonable approximation of the time distribution of asset purchases over the year.

Assets obtained through financial leasing agreements and some of those obtained through comparable operating leasing agreements are posted under the relevant line of tangible assets, and are depreciated using the straight-line method in the same manner as tangible assets owned by the Group, based on their estimated residual life. Short- and medium-term payables to the leasing organisation are booked as offsetting entries under the appropriate tangible asset item. Leasing payments are written off against the cost of using third-party assets, and interest charges for the financial year are booked under financial charges. This ensures that financial leasing operations are represented in accordance with the methodology established under IAS 17.

h) Long-term investments

Investments in non-consolidated subsidiaries and affiliated companies

Non-current assets consisting of investments in non-consolidated subsidiaries and affiliated companies are valued at equity, i.e. booked in proportion to the Group's portion of the shareholders' equity of the Company as shown on its accounts for the previous year, after application of adjustments required under the regulations pertaining to consolidated accounting statements.

Capital gains or losses resulting from application of the equity method are booked on the profit and loss account under write-ups and write-downs respectively, under "adjustments to the value of financial assets".

Investments in other companies and long-term securities

Other stakes held in companies and long-term financial investments are valued at cost. In the event of a permanent loss of value, including a drop in the market price for listed securities, the value of shareholdings and securities is written down accordingly. Should the reasons for the loss of value cease to apply, the previous value is restored in the accounts for the year.

Long-term investments in the form of loans are valued at their estimated realisable value.

i) Inventories

Inventories are valued at the lower of the purchase cost and estimated market value. Inventories of obsolete or slow turnover goods are written down according to their use and/or sale potential.

j) Receivables

Receivables are booked at their estimated realisable value. This value is obtained by direct write-down of the receivables, performed on a case-by-case basis for large items and on a lump-sum basis for other items.

k) Investments other than non-current assets

Investments other than non-current assets are valued at the lower of their purchase cost and market value (based on prevailing stock market prices).

l) Accruals and deferrals

Accruals and deferrals include only the proportion of earnings and charges pertaining to the financial year that will be booked in subsequent financial years, and the proportion of revenues and expenses booked or incurred before the end of the financial year but pertaining to the subsequent financial years. At no time shall this account include portions of revenues and expenses spread over two or more financial years, the amount of which varies over time.

m) Reserves for risks and charges

Reserves for risks and charges are intended to provide cover for Company liabilities of a particular type, that are likely or certain to be incurred, for which the amount or period of application are not known at the end of the financial year.

o) Income tax and deferred taxation

Current corporate income tax is calculated on the basis of the taxable income of each consolidated Company under the tax laws in force in the countries in which each Company is based.

Deferred taxes are calculated on the basis of temporary differences between taxable income and the profits/losses of the various companies, in relation to amounts expected to be paid in future financial years. Similarly, in the case of deferred taxes that relate to losses, the deferred tax reserve is reduced by this amount, while any surplus portion is booked under tax assets. Specifically, deferred tax assets in respect of previous losses carried forward are only included if:

- there is reasonable certainty that they will be recovered;
- companies reported taxable income in their 2003 accounts.

In light of the above, Tiscali reported deferred tax assets totalling EUR 51.6 million in 2003, relating to Dutch subsidiary Tiscali BV and South African subsidiary Tiscali Pty.

p) Staff severance indemnity reserve

The staff severance fund provides cover for amounts payable to employees under current legislation, employment contracts or any Company agreement in force in any country in which the Group operates.

q) Payables

Payables are recorded at nominal value.

r) Risks, commitments and guarantees

Commitments and guarantees are shown in the memorandum accounts at their contractual value.

The guarantees take the form of surety bonds issued to third parties in compliance with contractual obligations.

Commitments refer to obligations resulting from agreements that have been signed but which have yet to be carried out.

The risks deemed most likely to generate a liability are described in the notes, and an allocation to the reserve for risks and charges is made as appropriate. Those risks deemed to represent only a possible liability are described in the notes, although no allocation is made to a specific risk fund, in line with standard accounting principles. Remote risks are not taken into consideration.

u) Recording of revenues, income, costs and charges

Revenues and income, costs and charges are recorded in the accounts net of returns, discounts, rebates and bonuses, and net of taxes linked directly to the sale of services. Financial income is posted on the basis of pro-tempore accounting principles.

Revenues and costs relating to ADSL activation (installation and modems/equipment) for the new broadband services are recorded on the profit and loss account in relation to the expected duration of the customer accounts, estimated at 36 months based on Company data and recent trends. Amounts relating to other financial years are listed separately under deferred income (revenues) or deferred charges (costs).

v) Recording of foreign currency amounts

Receivables and payables in foreign currencies are adjusted to the exchange rates in force at the end of the period, taking into account any hedging agreements that may exist. Exchange rate gains and losses are booked to the profit and loss account.

The exchange rates used to convert items and accounts in foreign currencies are shown below:

EXCHANGE RATES	ISO CODE	END-OF-YEAR RATE	AVERAGE RATE
Swiss franc	CHF	1.557900	1.520742
Czech koruna	CSK	32.410000	31.842583
Danish krone	DKK	7.445000	7.430692
Euro	EUR	1.000000	1.000000
British pound	GBP	0.704800	0.691892
Norwegian krone	NOK	8.414100	7.999458
Swedish krona	SEK	9.080000	9.124358
US dollar	USD	1.263000	1.130900
South African rand	ZAR	8.327600	8.530883

Analysis of Balance sheet items
ASSETS

(EUR/000)

A) Capital contributions due from shareholders

There are no receivables due from shareholders in respect of unpaid capital contributions.

B) Non-current assets

I – Intangible assets

Changes in intangible assets are shown below:

INTANGIBLE ASSETS	31.12.2002	INCREASES	OTHER CHANGES	DEPRECIATION	31.12.2003
Start-up and expansion costs	5,281	886	-	(3,565)	2,602
Research, development and advertising costs	38,000	18,779	(38,847)	(8,945)	8,987
Industrial patent rights and intellectual property rights	3,686	14,084	28,883	(18,458)	28,195
Concessions, licenses, trademarks and similar rights	141,933	27,868	14,467	(24,910)	159,358
Goodwill	160	90	-	(42)	208
Payments on account and intangible assets in course of acquisition	6,161	321	(4,503)	-	1,979
Other	13,005	1,402	-	(3,741)	10,666
Consolidation difference	540,987	34,520	464	(72,063)	503,908
Total	**749,213**	**97,950**	**464**	**(131,724)**	**715,903**

The "start-up and expansion costs" line relates to the parent Company Tiscali S.p.A. and includes the long-term cost of capital increases and start-up costs. Start-up costs, which accrued mainly in 1999, include the cost of starting the network roll-out process (installation and data centre activation) and of the launch campaign for the TiscaliFreenet Internet access service.

"Research, development and advertising costs" include capitalised advertising costs of around EUR 18.8 million before amortisation. These costs are amortised on a straight-line basis over the year in which they are incurred and in the following year; after amortisation, advertising and promotional costs were EUR 9 million. The reason for capitalising these costs is that they relate to specific advertising campaigns for the launch of new broadband services, which are expected to generate significant revenues for the foreseeable future, as indicated by the results achieved in the second half of 2003 and the first few months of 2004.

The increase in "industrial property rights and intellectual property rights" relates to the acquisition of patents for the development of innovative value-added services relating to the launch of new dial-up and broadband ISP services. Specifically, EUR 5 million was invested by the parent Company, EUR 4 million by Liberty Surf and EUR 1 million by the South African subsidiary.

"Concessions, licences, trademarks and similar rights" included investments in software and installation costs of EUR 47 million, and EUR 112.3 million for the rights of subsidiary Tiscali International Network BV and its directly-owned subsidiary Tiscali International Network S.A. to purchase transmission capacity on a multi-year basis (IRUs). The increase of around EUR 28 million versus the previous year relates to new IRUs contracts (EUR 12.5 million), the purchase of software licences for the management of the new technology platform (access systems and network management) and the introduction of billing and administration systems. These increases relate to Group IT systems (EUR 5 million), investments made by Liberty Surf (EUR 3.2 million) and Tiscali International Network (EUR 1 million).

"Other" mainly includes upgrade costs on third-party assets, which are amortised on a straight-line basis over the remaining term of the lease or the useful life of the asset.

The “other changes” column mainly includes the restatement of research, development and advertising costs and intangible assets in the course of acquisition as industrial property rights, concessions, licences and trademarks, due to the application of the same criteria across different Group companies.

Consolidation difference

In light of the importance of the item and the significant changes that have taken place over a number of financial years, a summary of the changes that have been made to the consolidation difference and the reasons behind them are set out below.

Preliminary remarks

Following an intense acquisitions campaign, the Tiscali Group has grown significantly over the years and is now present in over 15 countries. As a result, the Company has a very complex structure.

In 2000-2001, Tiscali paid for many of its acquisitions in shares (under art. 2343 of the Italian civil code, which regulates payments in kind). These shares were issued in capital increases carried out by Tiscali S.p.A. without pre-emptive rights, based on paragraph IV, art. 2441 of the civil code. The issue prices were calculated based on the stock market average over a period in close proximity to the shareholders’ meeting to approve the capital increase.

The process of consolidating its stakes in the companies acquired also generated substantial goodwill (i.e. resulting from the difference between shareholders’ equity and the market value of the companies) as is the case with many Internet companies.

In 2001, the Group began the process of reorganising and simplifying its structure by merging, integrating and liquidating companies, while the management and reporting system was adapted to the new size and complexity of the Group.

Specifically, the Tiscali Group consisted of parent Company Tiscali S.p.A. and two sub-holding companies, World Online International and Liberty Surf Group, both of which produced a set of “consolidated” accounts. These in turn were used in the preparation of the consolidated accounts for the whole Group.

As part of the reorganisation of the Tiscali Group by country (business unit), the World Online and Liberty Surf Groups took part in several share swaps. In the second half of 2001, certain divisions of the UK companies belonging to the Liberty Surf Group were transferred to companies belonging to the UK subsidiaries of World Online.

The share prices of Internet companies plummeted in 2001, and the Tiscali stock fell from its highs of around EUR 100 in April 2000 to around EUR 9 in January 2002.

*Accounts for the year ending 31 December 2001*When the 2001 accounts were prepared, the directors began a process of adjusting the value of shareholdings included in the accounts to their market value, to reflect the significant financial market correction and change in the Company organisation.

In light of the Group reorganisation and as part of it, the directors reviewed the value of the shareholdings together with the consolidation difference (goodwill) recorded in the consolidated accounts.

It was not practical to apply a method such as a discounted cash flow valuation to the individual companies acquired, given that following the reorganisation described above, the businesses of the companies acquired were well integrated within the Group, and could no longer be identified separately (although they had yet to become true business units at country level). The Group therefore needed to adopt a valuation method that took into account its use of shares to finance acquisitions, or to use a more precise valuation method where possible.

For acquisitions carried out via the issue of new shares, the Group concluded that the most accurate method of valuing the companies acquired was the valuation based on the Tiscali share price. Given that the value of the stock fell in the last few months

of 2001, as a precaution, the Group chose to use the most up to date information possible, specifically the average share price in January 2002. This was then multiplied by the number of shares issued for each operation, and the value of the shareholding was then adjusted to the value obtained.

To value companies sold within the Group as part of the restructuring process—particularly the ISPs—the number of active users (subscribers) was multiplied by a market value attributed to each subscriber. For other businesses that could not be valued using these criteria (such as companies operating in the telecoms sector), the current value was calculated using more tailored valuation methods.

For the key German and UK markets, the Group commissioned reports from independent consultants, while in France, the Group used an impairment test carried out by Liberty Surf Group S.A. on its shareholdings.

In addition, the difference between the value of the holdings (valued at cost) and their market value was calculated, both at consolidated level and within the World Online International and Liberty Surf Group sub-groups.

Three types of valuation were used: the current market value, calculated by multiplying the number of Tiscali shares issued for the transfer of shares in the companies in question by the average Tiscali share price in January 2002, and then adding: i) any additional sums paid as part of the acquisition/transfer; ii) any capital contributions made following the acquisition/transfer and; iii) any additional costs incurred in the acquisition/transfer.

To value the Group's stakes in Guglielmo GmbH, Tiscali France S.A. and Nets S.A., the sale prices (as per the relevant contracts) were used, while the Group commissioned reports from independent consultants for the shareholdings and the underlying assets held in the UK and Germany.

In this context, the Tiscali board of directors that approved the 2001 accounts then made further write-downs of around EUR 106 million as a precautionary measure. The main write-downs relate to the stake in World Online Holdings Plc (EUR 58 million) in respect of intragroup goodwill (and as such, was therefore eliminated) and the shareholdings in Germany (EUR 29.5 million). As a precautionary measure, and given the difficulties of integrating the businesses in Germany, it was decided to adopt the minimum value given in the independent reports, and not the average value as originally proposed.

Total extraordinary write-downs and amortisation relating to the consolidation difference (goodwill) included in the consolidated accounts to 31 December 2001 were EUR 861 million (see table showing changes in the consolidation difference below).

Accounts for the year ending 31 December 2002

In 2002, with the simplification of the Company structure that involved the direct consolidation of all Group shareholdings, Tiscali enhanced its reporting and forecasting system, and made it more reliable.

Tiscali's directors therefore decided that the values of shareholdings and consolidation differences (goodwill) recorded in the consolidated accounts for the year ending 31 December 2002 must be subject to an impairment test, by comparing the book values with those obtained using a discounted cash flow model, the method generally applied in these cases. This method is applied based on the business plan for the next six years, which was drawn up in consideration of: (i) information concerning the market in the different countries in which the Tiscali Group operates; (ii) the performance of the various Group companies; and (iii) the Group's organisation and management model, which had been introduced in the Group's core markets in the meantime.

Based on this business plan, estimated cash flows were extrapolated for the period under consideration. These cash flows were

then discounted at euribor plus the risk premium attributed by the market to the Tiscali Group at that time.

The values obtained in this way were compared, for the purpose of preparing the 2002 accounts, with those of the shareholdings recorded in the parent Company accounts as of the same date, and with the related goodwill recorded in the consolidated accounts, and the detailed analysis carried out for each country in which Tiscali operates showed that no write-downs were necessary, except in certain cases.

Specifically, no write-down of the consolidation difference was necessary, as the impairment test did not reveal any situations likely to lower the value of goodwill in the various countries.

In the accounts for the year ending 31 December 2002, write-downs related to the companies wound up in 2002, as well as to the former Czech subsidiary CD Telekomunikace Sro. At the end of December 2002, Tiscali signed an agreement to sell this Company, whereby the book value was adjusted to the agreed sales price. The subsidiary Tiscali ITS S.r.l. (valued at equity) was also written down after it paid Tiscali S.p.A. a dividend for the year, so as to bring its book value into line with the reduced shareholders' equity value following the dividend payout.

As well as analysing the results of the impairment test and in light of the improved internal reporting system, the Group analysed the main changes in the shareholdings and goodwill in 2001 while preparing the accounts to 31 December 2002.

The analysis focused in particular on goodwill relating to subsidiaries operating in the UK, whose book value—after amortisation relating to UK subsidiaries World Online Telecom Ltd and World Online Holdings Plc—was EUR 309 million at 31 December 2001. As a result, a variance in the values of the consolidation difference (goodwill) was noted, as described below.

The reports commissioned by Tiscali in February 2002 for the 2001 accounts, to assess the value of the UK subsidiaries, pointed up an average equity value of EUR 155 million. This indicated that write-downs amounting to EUR 154 million should be made. The board of directors carried out a further check of intragroup goodwill, which it then wrote down by a further EUR 58 million, taking the total write-down to EUR 212 million.

At the end of 2002, an analysis of the UK subsidiaries—renamed Tiscali UK Ltd and Tiscali Holdings Plc—revealed that the shareholders' equity values that should have been compared with the equity value shown in the consultant's reports was EUR 94 million lower, and that the value of goodwill that could be estimated based on the minimum value of the independent reports (EUR 129 million) was therefore EUR 223 million.

A comparison of this value with the book value of goodwill relating to UK subsidiaries (EUR 309 million) shows a difference of EUR 86 million, which represented the maximum value of the write-down that should have been booked in the accounts for the previous year. After the write-down of EUR 212 million was made in 2001, it emerged that the write-down of goodwill in the UK subsidiaries was EUR 126 million higher than necessary.

Despite the greater visibility of the business and the fact that the valuation of the UK assets according to the impairment test carried out for the 2002 accounts showed that goodwill relating to the UK subsidiaries was worth significantly more than the book value, the board of directors decided to increase the Group's consolidated shareholders' equity (to correct the higher than necessary write-down made in 2001), but as a precautionary measure, by only 50% of the surplus amount, and to record this solely under shareholders' equity.

This was in line with the write-down (EUR 58 million) decided by the board of directors in 2001, to adjust the goodwill that was mistakenly considered to be intragroup, and which was added to the initial write-down of EUR 154 million.

Accounts to the year ending 31 December 2003

As explained in the section in these notes on accounting policies, at the end of 2003, Tiscali reviewed the residual useful life of the consolidation difference, following the extraordinary write-downs made in 2001. This assessment was carried out with reference to the amounts attributable to the different Group companies, largely corresponding to the various countries and geographical areas in which the Group operates, and led to a change in the estimated residual life of the consolidation difference. The change in the estimated useful life of the consolidation difference is justified by the structural conditions described in the section on accounting policies.

Specifically, the consolidation difference is now amortised from the acquisition date of the Company or division over 12 years, compared to five years previously (until 31 December 2002).

An impairment test was carried out to provide an updated valuation of the consolidation difference, based on an analysis of the value of the Group companies to which this item refers, using a discounted cash flow calculation based on the business plans for all business units in each country in which Tiscali operates. This analysis showed that the net book value of goodwill pertaining to the different countries was much lower than the corresponding value derived from the methodology described above. In addition, the board of directors commissioned a report by an independent consultant, who confirmed that there was a significant difference between the value of goodwill estimated on the basis of the business plans for each business unit, and the book value of goodwill recorded for each business unit. The consultant also suggested that an amortisation period of between 10 and 15 years was sustainable for the Group.

Furthermore, from 2005 (but for comparative purposes, from the 2004 accounts), IAS/IFRS accounting principles will be applied, under which (according with the current version, in the draft format) goodwill is no longer amortised. Instead, it is valued each year according to impairment test criteria, for the purposes of checking the book value and ascertaining whether any write-downs should be recorded. In this context, where there is a significant difference between the value of goodwill determined by the report/impairment test and its book value, it is considered appropriate to extend the amortisation period, as other sector companies have done.

This change in the estimated residual useful life of the consolidation difference led to lower amortisation charges (by around EUR 129.8 million) in the year ending 31 December 2003 than those calculated according to the period of estimated use in previous years, thereby increasing the Company's net result and consolidated shareholders' equity by the same amount.

For further information, the changes in the consolidation difference in 2001, 2002 and 2003 generated by, and therefore relating to, the fully consolidated companies of the Tiscali Group are set out below.

COMPANY	31.12.2000	INCREASES	EXTRAORDINARY WRITE-DOWNS AND AMORTISATION	AMORTISATION	31.12.2001
Tiscali Czech Republic	290	1,244	-	(432)	1,102
Tiscali Telekomunikace Sro	-	20,985	(10,078)	(2,099)	8,809
Tiscali Denmark A/S	2,260	3,684	(2,849)	(2,778)	317
Tiscali Ov	-	3,638	(3,638)	-	1
Tiscali AB	-	-	-	-	-
@HOME S.A.	-	-	-	-	-
Tiscali España S.A.	977	7,543	(7,209)	(1,311)	-
Tiscali Telecomunicaciones S.A.	-	-	-	-	-
World Online SRL (being wound up)	644	-	(378)	(266)	-
Excite Italia BV	-	6,086	-	(1,014)	5,072
Ideare S.p.A.	4,560	-	(530)	(1,032)	2,998
Tiscali Motoring S.r.l.	141	-	-	(35)	106
Informedia S.r.l.	269	-	(176)	(67)	26
Quinary S.p.A.	20,612	-	(12,032)	(4,666)	3,914
Best Engineering S.p.A.	4,725	-	(3,675)	(1,030)	20
STS Studi Tecnologie Sistemi S.p.A.	2,350	-	-	(587)	1,762
Tiscali Österreich GmbH	-	103	-	(19)	84
World Online Holding S.A.	200	-	-	(172)	28
Tiscali Datacomm AG (Datacomm AG)	41,732	-	(13,304)	(10,046)	18,382
World Online GmbH	-	-	-	-	-
Tiscali Business GmbH	47,186	100	(15,589)	(18,759)	12,938
Tiscali Deutschland GmbH	229,955	2,529	(77,220)	(54,303)	100,961
Gugliuelmo GmbH	-	19,204	(13,411)	(1,600)	4,193
Tiscali GmbH	-	6,018	(3,350)	(100)	2,568
Tiscali Business S.A.	-	15,137	(14,885)	(252)	-
Tiscali International Network S.A.	7,517	-	(1,580)	(1,804)	4,133
Liberty Surf Group S.A.	-	67,720	(429)	(10,351)	56,940
Tiscali Access S.A. (ex Liberty Surf S.A.)	-	15,695	(5,500)	(2,984)	7,211
Film Non Stop Monsieur Cinema.Com S.A.	-	6,207	(6,207)	-	-
Ovni Web S.A.	-	13,522	(13,022)	-	500
Ceic S.r.l.	-	4,336	(3,825)	(511)	-
Cent Pour Cent S.A.	-	-	-	-	-
Respublica S.A.	-	10,273	(10,273)	-	-
Tiscali Media S.A. (ex Objectif Net S.A.)	-	34,615	(33,615)	-	1,000
Infonie Promotions	-	12,397	-	(413)	11,984
Tiscali Telecom S.A. (ex Liberty Surf Telecom S.A.)	-	51,886	(37,404)	(2,691)	11,791
Tiscali Reseaux S.A.	87,201	-	(61,105)	(21,095)	5,001
Intercall S.A.	-	23,312	-	(1,359)	21,953
Chez.com	-	86,020	(86,020)	-	-
Other Minor LSG	-	160,869	(152,845)	(8,024)	-
Tiscali Uk Ltd	-	-	-	-	-
Tiscali Holdings UK Plc	193,298	199,715	(197,230)	(112,487)	83,296
World Online Telecom Ltd	35,900	-	(13,980)	(8,484)	13,436
Tiscali Internet Ltd	-	-	-	-	-
Tiscali Network Distribution Ltd	-	-	-	-	-
Tiscali BV	3,714	21,565	(12,596)	(3,316)	9,367
World Online International N.V.	280,293	65,797	-	(68,940)	277,150
Tiscali N.V.	36,328	11,554	(34,065)	(2,492)	11,325
Wanadoo Belgium S.A.	-	-	-	-	-
Vodacom World Online Ltd	19,907	-	-	(14,878)	5,029
Other minor shareholdings	-	19,079	(18,621)	-	458
WOL Merchandising LLC	2,874	-	-	(1,642)	1,232
	1,022,932	**890,833**	**(866,641)**	**(362,041)**	**685,084**

COMPANY	31.12.2001	INCREASES	DISPOSALS AND RESTATEMENTS	AMORTISATION	31.12.2002
Tiscali Czech Republic	1,102	63	(15)	(603)	547
Tiscali Telekomunikace Sro	8,809	30,469	(34,172)	(5,106)	0
Tiscali Denmark A/S	317	283	-	(296)	304
Tiscali Oy	1	-	-	-	1
Tiscali AB	-	2,849	(1,145)	(570)	1,134
@HOME S.A.	-	-	-	-	-
Tiscali España S.A.	-	319	-	965	1,284
Tiscali Telecomunicaciones S.A.	-	-	-	-	-
World Online SRL (being wound up)	-	-	-	-	-
Excite Italia BV	5,072	-	-	(1,218)	3,854
Ideare S.p.A.	2,998	-	-	(926)	2,072
Tiscali Motoring S.r.l.	106	-	-	(35)	71
Informedia S.r.l.	26	-	-	(26)	-
Quinary S.p.A.	3,914	-	-	(2,260)	1,654
Best Engineering S.p.A.	20	-	-	(20)	-
STS Studi Tecnologie Sistemi S.p.A.	1,762	-	-	(587)	1,175
Tiscali Österreich GmbH	84	3,900	(646)	(1,411)	1,927
World Online Holding S.A.	28	-	-	(28)	-
Tiscali Datacomm AG (Datacomm AG)	18,382	10,787		(8,464)	20,705
World Online GmbH	-	-	-	-	-
Tiscali Business GmbH	12,938	-	-	(12,938)	-
Tiscali Deutschland GmbH	100,961	-	-	(40,235)	60,726
Gugliuelmo GmbH	4,193	-	(4,193)	-	-
Tiscali GmbH	2,568	11,658	-	(3,026)	11,200
Tiscali Business S.A.	-	-	-	-	-
Tiscali International Network S.A.	4,133	-	(4,133)	-	-
Liberty Surf Group S.A.	56,940	-	-	(13,458)	43,482
Tiscali Access S.A. (ex Liberty Surf S.A.)	7,211	-	-	(2,984)	4,227
Film Non Stop Monsieur Cinema.Com S.A.	-	-	-	-	-
Ovni Web S.A.	500	-	-	(143)	357
Ceic S.r.l.	-	-	-	-	-
Cent Pour Cent S.A.	-	-	-	-	-
Respublica S.A.	-	-	-	-	-
Tiscali Media S.A. (ex Objectif Net S.A.)	1,000	-	-	(400)	600
Infonie Promotions	11,984	-	-	(2,479)	9,505
Tiscali Telecom S.A. (ex Liberty Surf Telecom S.A.)	11,791	-	-	(2,242)	9,549
Tiscali Reseaux S.A.	5,001	-	-	-	5,001
Intercall S.A.	21,953	795	-	(2,411)	20,337
Chez.com	-	-	-	-	-
Other Minor LSG	-	-	-	-	-
Tiscali Uk Ltd	-	-	-	-	-
Tiscali Holdings UK Plc	83,296	79,018	(35,085)	(13,654)	113,576
World Online Telecom Ltd	13,436	-	-	(8,484)	4,952
Tiscali Internet Ltd	-	-	-	-	-
Tiscali Network Distribution Ltd	-	-	-	-	-
Tiscali BV	9,367	12,084	-	(11,330)	10,121
World Online International N.V.	277,150	-	-	(69,218)	207,932
Tiscali N.V.	11,325	-	(6,200)	(5,125)	-
Wanadoo Belgium S.A.	-	-	-	-	-
Vodacom World Online Ltd	5,029	6,370	-	(6,702)	4,697
Other minor shareholdings	458	-	(458)	-	-
WOL Merchandising LLC	1,232	-	-	(1,232)	-
	685,084	**158,596**	**(86,047)**	**(216,646)**	**540,988**

Details of changes in consolidation differences for the year to 31 December 2003 are shown below.

COMPANY	31.12.2002	OPENING RESTATEMENTS	INCREASES	OTHER CHANGES	AMORTISATION	31.12.2003
Tiscali Czech Republic	547	(73)	-	-	(48)	426
Tiscali Telekomunikace Sro	0	-	-	-	-	-
Tiscali Denmark A/S	304	571	-	-	-	875
Tiscali Oy	1	-	-	-	(0)	1
Tiscali AB	1,134	598	11	-	(184)	1,559
@HOME S.A.	-	-	-	-	-	-
Tiscali España S.A.	1,284	3,689	8,688	-	(1,087)	12,520
Tiscali Telecomunicaciones S.A.	-	-	-	-	-	54
World Online SRL (being wound up)	-	-	-	-	-	-
Excite Italia BV	3,854	-	-	-	(381)	3,473
Ideare S.p.A.	2,072	-	-	-	(205)	1,866
Tiscali Motoring S.r.l.	71	-	-	-	(8)	63
Informedia S.r.l.	-	-	-	-	-	-
Quinary S.p.A.	1,654	-	-	-	(177)	1,477
Best Engineering S.p.A.	-	-	-	-	-	-
STS Studi Tecnologie Sistemi S.p.A.	1,175	-	-	-	(129)	1,046
Tiscali Österreich GmbH	1,927	(20)	50	-	(207)	1,750
World Online Holding S.A.	-	-	-	-	-	-
Tiscali Datacomm AG (Datacomm AG)	20,705	-	-	-	(2,063)	18,642
World Online GmbH	-	-	-	-	-	-
Tiscali Business GmbH	-	-	-	-	-	-
Tiscali Deutschland GmbH	60,726	-	-	-	(6,638)	54,090
Gugliuelmo GmbH	-	-	-	-	-	-
Tiscali GmbH	11,200	-	-	-	(933)	10,267
Tiscali Business S.A.	-	-	-	-	-	-
Tiscali International Network S.A.	-	8,778	-	-	(924)	7,854
Liberty Surf Group S.A.	43,482	-	-	-	(4,261)	39,221
Tiscali Access S.A. (ex Liberty Surf S.A.)	4,227	(2,292)	-	2,292	(421)	3,806
Film Non Stop Monsieur Cinema.Com S.A.	-	-	-	-	-	-
Ovni Web S.A.	357	-	-	-	(38)	319
Ceic S.r.l.	-	-	-	-	-	-
Cent Pour Cent S.A.	-	-	-	-	-	-
Respublica S.A.	-	-	-	-	-	-
Tiscali Media S.A. (ex Objectif Net S.A.)	600	-	-	-	(65)	535
Infonie Promotions	9,505	(108)	-	(2,292)	(862)	6,243
Tiscali Telecom S.A. (ex Liberty Surf Telecom S.A.)	9,549	-	9,791	-	(2,433)	21,907
Tiscali Reseaux S.A.	5,001	-	-	-	-	-
Intercall S.A.	20,337	-	-	-	(16,543)	3,794
Chez.com	-	-	-	-	-	-
Other Minor LSG	-	-	-	-	-	-
Tiscali Uk Ltd	-	(11,582)	6,112	-	(3,973)	43,062
Tiscali Holdings UK Plc	113,576	-	-	462	(5,089)	56,444
World Online Telecom Ltd	4,952	-	-	-	(1,370)	3,581
Tiscali Internet Ltd	-	-	601	2	(50)	553
Tiscali Network Distribution Ltd	-	-	-	-	-	-
Tiscali BV	10,121	32	-	-	(1,756)	8,396
World Online International N.V.	207,932	-	-	-	(20,931)	187,001
Tiscali N.V.	-	-	-	-	-	-
Wanadoo Belgium S.A.	-	-	9,267	-	(772)	8,495
Vodacom World Online Ltd	4,697	407	-	-	(514)	4,590
Other minor shareholdings	-	-	-	-	-	-
WOL Merchandising LLC	-	-	-	-	-	-
	540,988	**-**	**34,520**	**464**	**(72,063)**	**503,908**

At 31 December 2003, the consolidation difference was EUR 503.9 million, compared to EUR 541 million the previous year, after amortisation charges of EUR 72 million.

Increases over the year related to the following acquisitions or operations:

- acquisition of the customer database of Airtelnet Movil S.A., Vodafone España's Internet arm, by Spanish subsidiary Tiscali España S.A., for EUR 9.9 million;
- acquisition of Cable & Wireless France by French subsidiary Tiscali Telecom S.A. (EUR 5.6 million);
- acquisition of the Internet business of multi-utility npower UK by subsidiary Tiscali UK, for EUR 10.2 million;
- acquisition in the UK of Tiscali Internet Ltd, the Internet business of multinational Group Dell by Tiscali S.p.A. for EUR 0.6 million;
- acquisition of Wanadoo Belgium S.A. by Belgian subsidiary Tiscali Belgium S.A. for EUR 9.5 million.

Acquisizione della società Wanadoo Belgium S.A. da parte della controllata belga Tiscali Belgium S.A. per un importo di 9,5 milioni di Euro.

II – Tangible assets

A summary of the changes in the historical cost of tangible assets is given below.

HISTORICAL COST	31.12.2002	INCREASES	DECREASES	OTHER CHANGES	DEPRECIATION	31.12.2003
Land and buildings	14,815	12,071	(1,366)	9,032	-	34,552
Plant and machinery	377,931	32,710	(7,936)	(2,529)	-	400,176
Industrial and commercial equipment	1,684	885	-	504	-	3,073
Other tangible assets	136,179	19,913	(10,702)	(1,653)	-	143,737
Payments on account and tangible assets in course of acquisition	9,582	591	-	(7,666)	-	2,507
Total	**540,191**	**66,170**	**(20,004)**	**(2,312)**	**-**	**584,045**

DEPRECIATION PROVISIONS	31.12.2002	INCREASES	DECREASES	OTHER CHANGES	DEPRECIATION	31.12.2003
Land and buildings	3,591	-	(1,366)	-	1,380	3,605
Plant and machinery	153,468	-	(689)	(1,491)	77,048	228,336
Industrial and commercial equipment	1,047	-	-	739	519	2,305
Other tangible assets	94,874	-	(6,713)	(866)	15,952	103,247
Payments on account and tangible assets in course of acquisition	-	-	-	-	-	-
Total	**252,980**	**-**	**(8,768)**	**(1,618)**	**94,899**	**337,493**

NET BOOK VALUE	31.12.2002	INCREASES	DECREASES	OTHER CHANGES	DEPRECIATION	31.12.2003
Land and buildings	11,224	12,071	-	9,032	(1,380)	30,947
Plant and machinery	224,461	32,710	(7,247)	(1,038)	(77,048)	171,838
Industrial and commercial equipment	636	885	-	(235)	(519)	767
Other tangible assets	41,306	19,913	(3,989)	(787)	(15,952)	40,491
Payments on account and tangible assets in course of acquisition	9,582	591	-	(7,666)	-	2,507
Total	**287.209**	**66.170**	**(11.236)**	**(694)**	**(94.899)**	**246.550**

The total value of net tangible assets at 31 December 2003 was EUR 246.6 million. Investments over the year came to around EUR 66 million, and mainly relate to investments in network, server and Internet access equipment.

The “land and buildings” line includes investments and restatements of tangible assets in course of acquisition from the previous year following the completion of the parent Company headquarters in Cagliari, on which work had begun the previous year. The total investment in the new premises was EUR 34.5 million.

The “plant and machinery” line largely includes dedicated equipment and networks, routers, servers and telephone exchanges that make up most of the tangible assets. The item shows an increase due to investment in upgrading network and access infrastructure.

The “other tangible assets” line mainly includes furnishings, IT and office equipment and vehicles.

The value of tangible assets fell by around EUR 20 million, of which EUR 17 million relates to the French subsidiaries (following the reorganisation that took place after the Cable & Wireless acquisition) and Danish subsidiary Tiscali Denmark.

As already stated in the accounting policies section of these notes, for the purpose of preparing the 2003 accounts, the Group commissioned an independent consultant to assess the estimated residual life of the key equipment, specifically IP and Ethernet network equipment (commercially known as routers and L3/L2 switches) belonging to Tiscali S.p.A. and its subsidiaries. This report put the useful life of these assets—with the same technical specifications and used for the same purpose—at five years, and has allowed Tiscali to harmonise depreciation rates for this equipment at 20% across the various Group companies. This is the rate previously applied by the parent Company.

For assets relating to some Group companies, this has led to a change in the estimated residual life of specific equipment belonging to certain Group companies, thereby reducing amortisation charges by around EUR 12.1 million in 2003, and increasing net profit and consolidated shareholders’ equity by the same amount.

III – IInvestments

The breakdown of investments is as follows.

LONG-TERM INVESTMENTS	31.12.2003	31.12.2002	CHANGE
Investments in:			
Non-consolidated Group companies	714	288	426
Affiliated companies	66	185	(119)
Other companies	12,547	12,687	(140)
Receivables	8,038	26,714	(18,676)
Total	**21,365**	**39,874**	**(18,509)**

The investments in consolidated and non-consolidated subsidiaries are valued according with the equity method. These mainly include stakes held by Tiscali S.p.A. in non-consolidated subsidiaries.

The change compared to the previous year relates to the valuation at equity of non-consolidated subsidiaries.

The investments in other companies are valued at cost, and relate to the smallest stakes held by Tiscali S.p.A..

Long-term investments in other companies mainly include the 0.3% stake in H3G S.p.A., a 3G (UMTS) mobile telephony Company operating under the “3” brand, acquired by Luxembourg-based Tiscali Finance for EUR 12.5 million.

Other receivables listed under long-term investments relate to Eurolight Associates Ltd, which bought Tiscali's stake in Czech Company CD Telekomunikace Sro at the beginning of 2003 and at the same time, took over receivables owed to Tiscali S.p.A. from the Company sold. These receivables, which originally totalled EUR 25.3 million, were written down by EUR 17.3 million to bring them into line with their estimated realisable value. The residual value of EUR 8 million was calculated at the end of the year, based on the amount expected to be recovered through local subsidiary Tiscali Telekomunikace Sro, which signed an agreement with CD Telekomunikace Sro to purchase fibre optics. The estimated realisable value takes into account current conditions on the Czech fibre optic market, which suggested that the nominal value of the loan could no longer be recovered. At the same time, the receivable in question, originally listed with "other receivables" under current assets, was restated under long-term investments.

C) Current assets

I – Inventories

At 31 December 2003 the Group's inventories were worth EUR 9.9 million and consisted mainly of network equipment, consumables, telephone cards, goods for resale by the Company's merchandise department, and modems.

II – Receivables

Customer receivables

At 31 December 2003 receivables from customers totalled EUR 173.2 million, net of the write-down provisions of EUR 61.6 million. These receivables accrued from the sale of Internet services, billing of Internet access services, billing of usage-based fees for traffic generated by Tiscali subsidiaries on third-party fixed lines, advertising revenues and business and telephone services provided by the Group. The EUR 14.2 million decrease compared with 31 December 2002 was due to more stringent efforts to collect outstanding receivables: collection times fell from 85 days in the last quarter of 2002 to 60 days at the end of 2003. This enabled the Group to free up some of its working capital.

Receivables from non-consolidated subsidiaries

These totalled EUR 6.8 million, and refer to minor subsidiaries not included in the consolidation area.

Others receivables

OTHER RECEIVABLES	31.12.2003	31.12.2002	CHANGE
Advances to employees	3,171	57	3,114
Tax credits applied for	59,981	29,456	30,525
Tax credits	52,198	9,071	43,127
Deposits	23	-	23
Other receivables	8,710	47	8,663
Total	**124,083**	**38,631**	**85,452**

The "advances to employees" item consists of EUR 3.2 million paid out to employees, including EUR 2.6 million in interest-bearing loans to directors of the former World Online International, before the Company became part of the Tiscali Group. The figure refers in particular to a loan to the current General Manager of the Tiscali Group, for which a repayment plan has been drawn up.

Tax credits applied for include around EUR 50 million of VAT credits from previous years, generated by the structural difference between costs and revenues, and by the huge investments typical of companies at the start-up phase (as Tiscali was at that time). The figure also includes government allowances and tax credits on dividends. As most of these credits are expected to be received in 2004 with interest, the Company considers them to be essentially financial in nature. The amounts have therefore been restated as positive items in the financial position shown in the Report on operations.

Tax credits relate mainly to deferred tax assets recorded at the year-end (EUR 51.6 million) that relate to past losses generated by Group companies. Specifically, the figure refers to Tiscali's Dutch and South African subsidiaries, Tiscali BV (EUR 48.9 million) and Tiscali PTY (EUR 2.5 million). As stated in the section on accounting policies, the deferred tax assets recorded refer only to subsidiaries that generated taxable income in 2003.

There are no receivables due after more than 5 years.

III – Short term financial assets

These break down as follows.

SHORT TERM FINANCIAL ASSETS	31.12.2003	31.12.2002	CHANGE
Other financial assets	69,038	124,187	(55,149)
Total	**69,038**	**124,187**	**(55,149)**

The item "other financial assets" breaks down as follows:

- EUR 39.1 million relate to term deposits in respect of disputes, and guarantees in respect of loans granted to Group companies; specifically, some EUR 21.4 million was earmarked for a dispute with Jean Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co (please see Report on operations for details);
- EUR 12.5 million in deposits on leasing and other contracts;
- EUR 0.5 million in fixed-income securities;
- EUR 8.8 million of VAT refunds applied for and received by the parent Company in January 2004;
- EUR 4.7 million of tax credits on parent Company dividends;
- EUR 3.9 million of IRPEG tax credits transferred to subsidiaries by the parent Company under the provisions of art. 43 ter of the presidential decree of 29.09.73 and subsequent amendments. Part of these credits were used to offset taxes in January and February; these amounts have therefore been recorded as financial assets.

IV – Cash and cash equivalents

CASH AND CASH EQUIVALENTS	31.12.2003	31.12.2002	CHANGE
Bank and post office deposits	203,544	209,564	(6,020)
Cheques	-	3	(3)
Cash and other negotiable instruments	-	3	(3)
Total	**203,544**	**209,570**	**(6,026)**

Cash and cash equivalents fell from EUR 209.5 million at end-2002 to EUR 203.5 million at end-2003. The item covers cash, current accounts and negotiable money market instruments. At end-2003 the figure included EUR 77.8 million held by Tiscali Finance S.A. as a result of a bond issue carried out in September 2003, net of around EUR 70 million used to redeem part of the bond maturing in July 2004.

It also included EUR 84.4 million held by the French subsidiary Liberty Surf Group S.A., of which EUR 70 million is invested in short-term money market instruments. The use of these resources for extraordinary operations (such as loans to the parent Company and/or other Tiscali Group companies) requires approval from the board of directors of Liberty Surf Group, with reasons given for their decision.

D) Accrued income and deferred charges

Accrued income and deferred charges break down as follows.

ACCRUED INCOME AND DEFERRED CHARGES	31.12.2003	31.12.2002	CHANGE
Accrued income			
Rental income	-	184	(184)
Bank interest	176	684	(508)
Other accrued income	39,941	12,754	27,187
Total	**40,117**	**13,622**	**26,495**
Deferred charges			
Leasing charges and user licences	-	58	(58)
Rentals	120	97	23
Pre-paid expenses	50,675	28,084	22,591
Interest	-	11	(11)
Total	**50,795**	**28,250**	**22,545**
Total accrued income and deferred charges	**90,912**	**41,872**	**49,040**

Accrued income

Other accrued income includes:

- accrued income relating to revenues from ADSL contracts totalling EUR 3.3 million;
- revenues from the sale of multi-year indefeasible rights of use (IRUs) contracts for transmission capacity, worth EUR 6.5 million;
- revenues from business services pertaining to the subsidiary Tiscali UK (EUR 13.4 million);
- other revenues from services, generated mainly in Italy and the Netherlands (EUR 9.8 million).

Deferred charges

The item “deferred charges” consists chiefly of "pre-paid expenses", and breaks down as follows:

- deferred charges not relating to 2003 for the costs of activating customer ADSL lines (around EUR 25 million);
- multi-year line rental charges of around EUR 6 million for international circuits relating to the subsidiary Tiscali International Network S.A.;
- marketing costs of around EUR 7 million already invoiced but relating to advertising campaigns that began in January 2004;
- hardware and software maintenance charges of EUR 7.2 million.

Liabilities

A) Shareholders' equity

Statement of changes in shareholders' equity

The table below sets out changes in shareholders' equity.

SHAREHOLDERS' EQUITY	31.12.2002	INCREASES	TRANSFERS DIFFERENCE	EXCH. RATE	31.12.2003
Total shareholders' equity					
Share capital	180,867	3,593	-	-	184,460
Share premium reserve	1,632,896	26,086	(152,297)	-	1,506,685
Revaluation reserve	-	-	-	-	-
Currency translation reserve	(28,613)	-	-	(3,571)	(32,184)
Subsidiaries' undistributed profits (losses) carried forward	(575,977)	19,532	(440,848)	-	(997,293)
Profit (loss) for the year	(593,145)	(242,448)	593,145	-	(242,448)
Total	**616,028**	**(193,237)**	**-**	**(3,571)**	**419,220**
Minority interests	16,309	(9,973)	-	-	6,336
Total	**632,337**	**(203,210)**	**-**	**(3,571)**	**425,556**

Changes in shareholders' equity, especially the figures listed in the "increases" column, refer to capital increases carried out by the parent Company during the year.

In addition, EUR 152.3 million of the share premium reserve was used to cover losses made in 2002, as approved at the extraordinary shareholders' meeting of Tiscali S.p.A. held on 30 April 2003.

Changes to the currency translation reserve were chiefly due to fluctuations in the EUR/GBP exchange rate; the figure includes intragroup exchange rate losses of around EUR 30 million, generated on loans granted to the Group's UK, South African and Danish subsidiaries in respect of future capital increases.

The decrease in subsidiaries' undistributed profits (losses) and other reserves is attributable to losses not covered by the share premium reserve pertaining to indirectly-owned subsidiaries.

The table below shows related figures for the parent Company and Group.

	31.12.2003		31.12.2002	
	NET PROFIT	SHAREHOLDERS' EQUITY	NET PROFIT	SHAREHOLDERS' EQUITY
Tiscali S.p.A.	**(114,535)**	**1,576,612**	**(152,297)**	**1,661,466**
Elimination of effects of transactions between consolidated companies, after tax adjustments:				
- Cancellation of write-downs of holdings in subsidiaries	60,438	21,925	935	-
Effects of the change in/harmonisation of Group accounting policies, after tax adjustments:				
- Application of financial method for assets leased from third parties	(11,332)	18,734	(330)	19,064
- Valuation at equity of companies recorded on the balance sheet at cost	-	-	(9,054)	(8,627)
Book value of consolidated equity investments	-	(1,425,228)	-	(2,072,766)
Shareholders' equity and net profit of consolidated companies	(118,425)	(277,224)	(373,674)	567,765
Allocation of differences to the assets of consolidated companies	-	-	-	-
and related depreciation and amortisation:	-	-	-	-
- Consolidation goodwill	(72,063)	504,401	(127,613)	540,987
Effect of other adjustments:	-	-	-	-
- Group restructuring and other adjustments	13,469	-	68,888	(91,861)
BALANCE FROM THE CONSOLIDATED ACCOUNTS - Group	**(242,448)**	**419,220**	**(593,145)**	**616,028**
BALANCE FROM THE CONSOLIDATED ACCOUNTS - minorities	**(3,534)**	**6,336**	**376**	**16,309**
BALANCE FROM THE CONSOLIDATED ACCOUNTS	**(245,982)**	**425,556**	**(592,769)**	**632,337**

B) Reserve for risks and charges

This reserve consists of:

PROVISIONS FOR RISKS AND FUTURE LIABILITIES	31.12.2002	PROVISIONS	AMOUNTS USED	OTHER CHANGES	31.12.2003
Tax provisions	100	-	-	(100)	-
Other provisions for risks and future liabilities	20,059	20,286	(13,434)	100	27,011
Total	**20,159**	**20,286**	**(13,434)**	**-**	**27,011**

Around EUR 2 million of the reserve for risks and charges relates to the parent Company, and is principally intended to cover outstanding legal disputes.

The item also includes more than EUR 3 million earmarked by Tiscali's Dutch subsidiaries for risks relating to outstanding legal disputes, including the dispute with Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co, and another regarding a leased building no longer in use. Please see the Report on operations for a detailed description of the dispute with Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co.

A further EUR 7.4 million relates to the restructuring of the Liberty Surf Group following the acquisition of Cable & Wireless, while EUR 3 million pertains to commercial disputes.

The remainder relates mainly to funds earmarked for a dispute with I-Way (EUR 5.7 million), which was settled in early 2004.

C) Staff severance indemnity reserve

The table below sets out changes for the year.

STAFF SEVERANCE INDEMNITY RESERVE	31.12.2002	PROVISIONS	AMOUNTS USED	OTHER CHANGES	31.12.2003
Manual workers	6	1	-	-	7
Office staff	6,723	4,589	(866)	-	10,446
Senior managers	273	200	(76)	-	397
Total	**7,002**	**4,790**	**(942)**	**-**	**10,850**

The staff severance indemnity reserve refers mainly to the parent Company and the French subsidiary Liberty Surf Group S.A..

D) Payable

Breakdown

PAYABLES	31.12.2003	31.12.2002	CHANGE
Bonds	540,684	409,211	131,473
Payables to banks	71,495	59,306	12,189
Payables due to other lenders	43,551	62,929	(19,378)
Payables to suppliers	310,647	306,676	3,971
Due to non-consolidated subsidiaries	2,210	4,482	(2,272)
Due to affiliated companies	54	468	(414)
Taxes payable	29,055	32,375	(3,320)
Due to social security agencies	10,729	10,726	3
Other payables	36,148	12,142	24,006
Total	**1,044,573**	**898,315**	**146,258**

Bonds

This item, totalling EUR 540.7 million, includes the following:

ISSUER	NOMINAL VALUE (EUR MILLION)	ISSUE DATE	COUPON	MATURITY	GUARANTOR
Tiscali Finance S.A.	80.3*	July 2002	6.375%	July 2004	Tiscali S.p.A.
Tiscali Finance S.A.	250	July 2000	Euribor + 3.25%	July 2005	Tiscali S.p.A.
Tiscali Finance S.A.	209.5	September 2003	4.25%	September 2006	Tiscali S.p.A.
Tiscali UK Holdings Plc	0.9			On request	Tiscali International BV
Total	**540.7**				

** Original issue value: EUR 150 million. Amount remaining following the buyback operation carried out in December 2003*

The remaining portion of the bond issued by Tiscali UK Holdings Plc relates to financing for the acquisition of Telinco UK.

Important bond clauses

- Equity-linked bonds 2006

The equity-linked bond issue maturing in 2006 involves a convertible bond, issued at a price of EUR 7.57, with a soft mandatory clause. This means that the issuer may assign shares, even where, at maturity, Tiscali's market price is lower than the conversion price. In this case, the difference between the conversion price and the market price would have to be made up by the issuer. For example, if the conversion were to take place at Tiscali's market price on 30 December 2003 (EUR 5.54), based on a fixed conversion ratio, Tiscali would have to give bond holders shares worth around EUR 154 million, and the difference of around EUR 55.5 million in cash, thereby settling the nominal debt of EUR 209.5 million. The loan will be convertible from September 2004.

- Covenant on bonds maturing in 2004 and 2005

The bonds maturing in 2004 and 2005 include a covenant linked to the Company's gross debt and consolidated shareholders' equity at 31 December each year. The two types of covenant are set out in the table below. The covenant applying to Tiscali in relation to 2004 (negative consolidated cash flow) is listed first.

COVENANT CALCULATION PERIOD	CONSOLIDATED CASH FLOWS	COVENANT
Annual, at 31.12 each year	Negative	Consolidated gross debt must not exceed the greater of: i) EUR 600 million and ii) 2x consolidated shareholders' equity
Annual, at 31.12 each year	Positive	Consolidated net debt must not exceed the greater of: i) 3x consolidated EBITDA, ii) EUR 600 million and iii)2.5x consolidated shareholders' equity

Given consolidated shareholders' equity of EUR 425.6 million and consolidated gross debt of EUR 655.7 million at end-2003 (and negative consolidated cash flow), the ratio is 1.5x, and therefore lower than the limit of 2x imposed by the covenant.

The Telinco bond is recorded under short-term payables and is redeemable on request, with the option to renew. At 31 December 2003 the debt remaining was EUR 882,000.

Coupons have been set at 3-month Euribor plus a spread. Swap contracts have been entered into to hedge against interest rate risk.

At 31 December 2003 the following contracts were in force:

- interest rate swap agreement entered into with Banca Intesa S.p.A. on 31 July 2003, with a notional value of EUR 162.5 million;
- interest rate swap agreement entered into with Banca IMI S.p.A. on 19 June 2000 with a notional value of EUR 87.5 million.

These agreements relate solely to the EUR 250 million bond maturing in July 2005. All such agreements to date have been taken out as part of the Company's interest rate risk hedging strategy, and expire on the same date as the underlying bond loan.

Under the terms of the agreements, each quarter Tiscali agrees to swap with its counterparties the difference between interest amounts accrued on a nominal benchmark at an agreed fixed or variable interest rate.

Payables to banks

"Payables to banks" include an overdraft and medium-/long-term financing for the construction of the new Sa Illetta headquarters in Cagliari.

Short-term bank debt totalled EUR 37.9 million, of which EUR 1.5 million refers to loan repayments for the headquarters in Cagliari due in 2004.

Long-term bank debt relates to the loan granted by Banca CIS (Cagliari) for the new Company headquarters in Cagliari. The total amount of the loan is EUR 35 million, of which EUR 1.5 million is due by the end of 2004, EUR 12.2 million falls due from one to five years and the remaining EUR 21.3 million falls due after five years. This loan is backed by a EUR 70 million guarantee in respect of the property.

Payables due to other lenders

"Payables to other lenders" include payables to leasing companies for capitalised financial leasing agreements. These payables total EUR 43.5 million, of which EUR 28.4 million are due after one year. The agreements chiefly relate to networks, servers and other equipment used directly in the production process. The decrease of around EUR 18.5 million compared with 2002 is attributable to the instalments paid during the year.

Payables to suppliers

"Payables to suppliers" mainly refer to the provision of content and telephone and traffic data services. This item rose by around EUR 4 million in 2003, mainly because of higher revenues, which led to an increase in variable direct costs. Average payment terms in the fourth quarter fell from 154 days in 2002 to 141 days in 2003.

Payables to non-consolidated subsidiaries and affiliate companies

This includes payables to companies that have not been consolidated either because they are being wound up or because their effect on the accounts is insignificant.

Taxes payable

Taxes payable break down as follows

TAXES PAYABLE	31.12.2003	31.12.2002	CHANGE
Corporate income tax and other taxes	3,876	15,261	(11,385)
VAT payables to the Treasury	17,773	10,363	7,410
Payables to the Treasury for advance withholding tax	413	1,264	(851)
Payables to the Treasury for employee withholding tax	6,993	5,446	1,547
Other taxes payable	-	41	(41)
Total	**29,055**	**32,375**	**(3,320)**

The fall in "corporate income tax and other taxes" relates to adjustments made during the year. "VAT payables to the Treasury" totalled EUR 17.8 million, an increase of EUR 7.4 million owing to the rise in revenues.

Payables to social security agencies

"Payables to social security agencies" were unchanged on the previous year, and include pension contributions made by the Company and employees, and voluntary and compulsory social security and industrial accident insurance contributions.

Other payables

Other payables break down as follows:

OTHER PAYABLES	31.12.2003	31.12.2002	CHANGE
Payables to directors (emoluments)	517	585	(68)
Payables to employees (accrued holiday pay)	5,326	1,752	3,574
Other payables	30,305	9,805	20,500
Total	**36,148**	**12,142**	**24,006**

"Other payables" refer to payables to employees, directors and statutory auditors for emoluments and other payables that cannot be classified under any other item.

"Payables to directors" include emoluments.

The "other payables" item includes payables of EUR 2.5 million in respect of the acquisition of EU.net AG, Tiscali Internet Ltd and Home.se AB during the year, which are to be paid for in newly-issued shares in Tiscali S.p.A.. The necessary shares were issued in early 2004. This item also includes payables relating to: the acquisition of BabyXL (ADSL network) in 2002 (EUR 1.3 million), an agreement with BT Ignite over the acquisition of an access network (EUR 3.7 million) and refunds of modem and installation fees paid to broadband customers (EUR 2.1 million). Payables of EUR 2.4 million relating to Tiscali International BV due to former shareholder Nacamar Ltd, and of EUR 5.6 million relating to the acquisition of a division of npower during the year are also included under this item.

E) Accrued liabilities and deferred income

Accrued liabilities and deferred income break down as follows.

ACCRUED LIABILITIES AND DEFERRED INCOME	31.12.2003	31.12.2002	CHANGE
Accrued liabilities			
Rental	-	1,311	(1,311)
Bank interest	9,566	78	9,488
Interest on loans	-	-	-
Accrued payments (employees)	2,828	3,101	(273)
Accrued holiday bonuses	3,234	2,906	328
Other accrued expenses	61,984	59,288	2,696
Total	**77,612**	**66,684**	**10,928**
Deferred income			
Pre-paid Internet services	63,778	36,244	27,354
Other deferred income	11,880	30,764	(18,884)
Total	**75,658**	**67,008**	**8,650**
Total accrued liabilities and deferred income	**153,270**	**133,692**	**19,578**

"Accrued liabilities" mainly consist of operating expenses, such as payment for content, network access costs, consultancy fees and line rental costs, chiefly from the German subsidiaries (EUR 9.3 million) and UK subsidiaries (EUR 44.5 million). These relate to costs for traffic (EUR 7.6 million), ADSL (EUR 6.7 million), line rental (EUR 8.7 million), maintenance (EUR 1.3 million) and marketing (EUR 5 million), plus miscellaneous costs (EUR 7.4 million).

"Deferred income" largely concerns the deferral to later financial years of revenues from pre-payments for services such as line rental provided by Tiscali International Network S.A. and by Tiscali International Network Spain totalling EUR 40.7 million; this income, deferred over several years, has been booked with the aim of accurately determining the revenues pertaining to the sale of line rental services (IRUs), and have been calculated on a pro-rata basis over the duration of the contract (usually 15/18 years).

Deferred income also includes income from the supply of modems and ADSL installation and activation (EUR 8.7 million), as well as income from dial-up and other products from the French and UK subsidiaries (EUR 17 million).

Memorandum accounts

"Guarantees received" (EUR 1.8 million) take the form of surety bonds issued by suppliers to guarantee the provision of services in accordance with contractual obligations.

"Commitments" (EUR 13.6 million) chiefly refer to shares to be issued to employees and directors under the stock option plan, as well as capital increases that have yet to be carried out in respect of acquisitions made in 2003. Commitments of EUR 2.7 million refer to the issue of shares by the Liberty Surf Group in relation to the acquisition of subsidiary Film Non Stop, to be allocated to the former shareholders of this Company based on its results.

"Guarantees given" (EUR 18.3 million) related to sureties issued to the tax office for VAT refunds applied for and received in early 2004, while the remainder were issued to guarantee agreements in which the Tiscali Group is a supplier.

Profit and Loss Account

A) Value of production

Breakdown of value of production

REVENUES FROM SALES AND SERVICES	31.12.2003	31.12.2002	CHANGE
Access	612,933	517,218	95,715
Voice	70,394	51,790	18,604
Business	161,240	106,503	54,737
Portal	47,222	47,882	(660)
Other revenues	9,233	24,965	(15,732)
Total	**901,022**	**748,358**	**152,664**

Consolidated Group revenues totalled EUR 901 million at 31 December 2003, an increase of 20% on the previous year.

The access business remains Tiscali's main revenue driver, thanks to increasing demand for broadband services. Access revenues for the year came to EUR 612.9 million (+19% versus 2002) and accounted for 68% of total revenues.

The Company had 7.8 million active users at 31.12.2003, with broadband customers accounting for an increasing proportion: ADSL user numbers soared by 293% versus the previous year to 840,000.

Broadband growth gathered place again in January 2004: with the average number of new customers signing up each week at 77% ahead of 4Q03, Tiscali has now exceeded its target of one million ADSL users.

Broadband revenues totalled EUR 143.3 million in 2003, showing significant growth, particularly in the second half of the year. This strong growth was driven by an increase in active user numbers and a change in the customer mix, as over 50% of users are now billed directly and more are opting for monthly or pre-paid services not subject to seasonal factors.

Revenues from business services grew steadily throughout 2003, thanks to both organic growth brought about by a sharper commercial focus, and external growth following the acquisition of Nextra in Italy, Cable & Wireless in France and Eunet in Austria. Revenues came in at EUR 161.2 million, up 51% on the EUR 106.6 million recorded in 2002.

Portal revenues were EUR 47.2 million, or 5% of revenues. This growth was chiefly due to the seasonal peak typical of the fourth quarter and an upturn in online advertising sales.

Voice revenues rose by 36% versus 2002 to EUR 70.4 million (8% of total revenues). The substantial advance in voice revenues in the second half was due to both organic and external growth, following the inclusion of npower in the basis of consolidation from September 2003.

A breakdown of revenues by country is shown below.

COMPANY	TOTAL
Czech Republic	16,532
Denmark	27,446
Finland	842
Norway	11,174
Sweden	13,875
Spain	16,824
Italy	173,711
Austria	21,362
Switzerland	19,012
Germany	93,024
France	189,436
UK	169,618
Netherlands	64,984
Belgium	23,879
South Africa	39,666
Luxembourg	514
Tiscali International Network	19,124
Total	**901,022**

Non-EU revenues totalled EUR 56.2 million, and were generated in the Czech Republic (EUR 16.5 million) and South Africa (EUR 39.7 million).

The breakdown of revenues by country above shows that 80% of revenues are generated in Europe's five main markets.

Revenues include EUR 19 million from Tiscali International Network, which sells bandwidth and services to other operators and large multinationals and contributes an increasing proportion of total Group revenues. It is active throughout Europe, with offices in France, Spain, Italy and the Netherlands.

B) Production costs

Purchases of raw materials, supplies, consumables and other goods.
Purchases of raw materials, supplies, consumables and other goods include the cost of consumables and equipment for pre-paid telephone cards, goods intended for resale and modems.

A breakdown of costs for the provision of services is shown below.

SERVICE COSTS	31.12.2003	31.12.2002	CHANGE
Line rental	192,892	150,356	42,536
Purchase of traffic	173,814	107,375	66,439
Installation	5,815	345	5,470
Content	2,544	13,086	(10,542)
Portal services	7,250	7,795	(545)
Call centres	27,716	20,462	7,254
Other direct costs	31,621	67,183	(35,562)
Advertising and promotional expenses	138,372	118,356	20,016
Maintenance	21,504	19,930	1,574
Selling costs	1,561	2,671	(1,110)
Utilities	3,573	4,119	(546)
Bank and postal charges	11	2,458	(2,447)
Transport	-	74	(74)
Business travel	7,778	8,617	(839)
Insurance	1,286	1,492	(206)
Other services	25,662	47,853	(22,191)
Total	**641,399**	**572,172**	**69,227**

The most important cost elements for the provision of services are described below.

Line rental. This is a standard cost item in the sector that applies to all subsidiaries. In 2003, it rose to 31% as a proportion of total services costs as a result of growth in broadband and FRIACO dial-up user numbers. However, it fell to 21% of total revenues, compared to the previous year, thanks to the extension of the proprietary network. In addition, the Group's restructuring has already delivered significant savings, with no change in transmission capacity. The weighting of these costs is expected to fall further as revenues increase.

Purchase of traffic. This cost item jumped 62% versus the previous year to EUR 173.8 million, because of growth in the number of traffic minutes and dial-up connections.

Installation. Installation costs, at EUR 5.8 million, were up on the previous year. This cost is closely connected to installation revenues, a component of broadband revenues, which grew significantly in 2003.

Advertising and promotional costs. These costs were higher than in the previous year, at EUR 139.9 million, accounting for 22.6% of total costs and 15.5% of revenues. The increase is due to the Group's strong focus on access products, which requires investment in advertising to support new commercial ventures and, specifically, new broadband products. As already commented on in the section on changes in intangible assets, the Group has treated advertising and promotional costs of around EUR 19 million (relating to the launch of new broadband products on the international market) as capitalised costs.

Maintenance. This item came to around EUR 21.5 million, and was largely spent on maintenance agreements for network equipment and software. Maintenance costs accounted for 3% of total costs and 2% of revenues. The increase in maintenance costs relative to the previous year is a direct consequence of the Group's increased investment in this area.

Personnel costs. Personnel costs came to EUR 142.1 million in 2003, largely unchanged versus the previous year (EUR 140 million). However, these costs fell as a percentage of revenues, from 19% in 2002, to 16%. This followed the Group restructuring, which mainly took place in 2001 and 2002. Specifically, in the fourth quarter of 2003, the Group completed the rationalisation of staff at its French businesses, following the acquisition of Cable & Wireless.

OTHER OPERATING EXPENSES	31.12.2003	31.12.2002	CHANGE
Government concessions and telecommunications licenses	-	257	(257)
Magazines and newspaper subscriptions	-	33	(33)
Other non-extraordinary contingent liabilities	-	5,052	(5,052)
Losses on receivables not covered by reserves	2,582	-	2,582
Other minor charges	5,448	3,762	1,686
Total	**8,030**	**9,104**	**(1,074)**

This item mainly consists of telephone license costs in Italy and France, plus other minor expenses.

C) Financial income and charges

FINANCIAL INCOME	31.12.2003	31.12.2002	CHANGE
From securities listed under non-current assets other than equity investments	303	4	299
From securities listed under current assets other than equity investments	-	941	(941)
From receivables listed under non-current assets	32	619	(587)
Total	**335**	**1,564**	**(1,229)**
Earnings other than the above			
From non-consolidated Group companies	-	24,053	(24,053)
From affiliated companies	-	2,376	(2,376)
From third parties			
Interest earned from banks	42,432	6,907	35,525
Interest earned on tax credits	-	153	(153)
Interest earned on other securities	574	12,466	(11,892)
Exchange rate gains	-	195	(195)
Positive adjustments on exchange rates	8,603	6,614	1,989
Interest from customers	2	1	1
Other financial income	1,377	1,933	(556)
Income from short-term investments	-	41,804	(41,804)
Total	**52,988**	**96,502**	**(43,514)**
Total financial income	**53,323**	**98,066**	**(44,743)**

"Interest earned from banks" refers to cash investments, mostly made by Liberty Surf Group S.A., Tiscali International BV and Tiscali Finance S.A., and gains on swap contracts taken out by Tiscali Finance in respect of its bond liabilities. Please see the relevant section on payables for more information.

"Positive adjustments on exchange rates" mainly concern movements in the EUR/GBP exchange rate in respect of UK subsidiaries' dealings with other Group companies and/or suppliers and customers.

INTEREST AND OTHER FINANCIAL CHARGES	31.12.2003	31.12.2002	CHANGE
Owed to third parties			
Bonds	26,290	21,412	4,878
Medium-/long-term financing	7,107	11,377	(4,270)
Due to banks for medium-/long-term loans	-	201	(201)
Due to other financial institutions	2,103	2,855	(752)
Payables to suppliers	161	149	12
Other payables	1,313	738	575
Exchange rate losses	1,330	7,246	(5,916)
Losses from securities trading	-	18	(18)
Losses on short-term operations	34,705	42,917	(8,212)
Other	876	1,019	(143)
Total	**73,885**	**87,932**	**(14,047)**

Financial charges totalled EUR 73.9 million in 2002, and mainly related to bonds issued by Tiscali Finance S.A. and Tiscali International BV. Other financial charges relate to bank overdrafts and interest on financial leasing operations.

D) Adjustments to the value of financial assets

Adjustments to the value of financial assets included the income generated by the valuation at the equity method of non-consolidated minor investments belonging to the parent Company.

E) Extraordinary income and charges

Extraordinary income items are shown below.

EXTRAORDINARY INCOME	31.12.2003	31.12.2002	CHANGE
Correction of errors posted in previous years	-	329	(329)
Non-recurring items	-	617	(617)
Other extraordinary income	61,603	91,176	(29,573)
Total	**61,603**	**92,122**	**(30,519)**
Capital gains on disposals of non-current assets			
Capital gains on disposals of intangible assets	-	-	-
Capital gains on disposals of tangible assets	29	-	29
Capital gains on disposals of long-term investments	947	-	947
Total	**976**	**-**	**976**
Total extraordinary income	**62,579**	**92,122**	**(29,543)**

Other extraordinary income totalled EUR 61.6 million and included income of EUR 24.4 million recorded by the German subsidiaries and pertaining to the previous years, relating to the correction of errors made in respect of asset write-downs and/or depreciation.

The balance also includes parent Company contingent assets of EUR 20.6 million, of which EUR 14.2 million relates to the release of provisions for risks and future liabilities previously allocated to cover charges relating to the investments, which were deemed unnecessary in 2003.

Lastly, Spanish subsidiary Tiscali España generated extraordinary income of EUR 13.7 million in 2003.

Extraordinary charges are detailed in the table below.

EXTRAORDINARY CHARGES	31.12.2003	31.12.2002	CHANGE
Redundancy costs	13,322	2,515	10,807
Restructuring costs relating to contracts terminated early	8,752	8,651	101
Restructuring costs relating to the write-down of tangible assets	1,170	26,578	(25,408)
Other restructuring costs	24,115	29,173	(5,058)
Other extraordinary charges	60,631	142,774	(82,143)
Total	**107,990**	**209,691**	**(101,701)**
Capital losses on disposals of non-current assets			
Capital losses on disposals of intangible assets	1,426	-	1,426
Capital losses on disposals of tangible assets	19	1,527	(1,508)
Total	**1,445**	**1,527**	**(82)**
Total extraordinary charges	**109,435**	**211,218**	**(101,783)**

"Redundancy costs" relate to Group restructuring, including the internal reorganisation of the French subsidiaries (EUR 11.6 million).

"Restructuring costs relating to contracts terminated early" include penalties paid for supplier contracts inherited with acquisitions that were terminated early due to overlap or conditions deemed disadvantageous. These costs totalled EUR 8.5 million, of which EUR 6.5 million relate to the UK subsidiaries.

"Other restructuring costs" include other expenses incurred in the rationalisation of Group processes, of which EUR 18.2 million relates to the integration of Wanadoo Belgium.
In particular, the remainder includes similar charges relating to the integration of companies acquired during the year (Austria and Spain).

Other extraordinary charges of EUR 60.6 million include:

- write-downs made by the Spanish subsidiaries relating to 2002; specifically, these included the write-down of intangible assets (EUR 2.9 million) and charges relating to the merger of subsidiaries (EUR 1.7 million). The item also includes the correction of accounting errors relating to an IRUs agreement (approximately EUR 3 million);

- a number of minor extraordinary charges relating to the parent Company in respect of previous years (EUR 3.5 million), as well as the write-off of net book value of EUR 1.4 million in respect of upgrades of third-party assets carried out in the Company's previous offices and then sold in 2003 following the completion of the Sa Illetta headquarters and the Group's transfer there;

- extraordinary charges relating to the German subsidiaries, totalling EUR 40 million, following completion of an extensive restructuring programme. These charges chiefly relate to non-existent assets and extraordinary write-downs of tangible and intangible assets;

- other extraordinary charges (EUR 6.6 million) relate to Dutch subsidiary Tiscali International BV, and are mainly due to restructuring charges, including charges attributable to the management of World Online International before it was acquired by the Tiscali Group (EUR 1.2 million).

Deferred taxes

The Group booked deferred tax assets of EUR 51.6 million for the year, calculated, as a precaution, solely for countries that registered taxable income in 2003. Please see the sections on accounting policies and "receivables from others" for more information.

Other information

The table below shows a breakdown of employees by category.

NUMBER OF EMPLOYEES BY CATEGORY	31.12.2003	31.12.2002	CHANGE
Senior managers	146	131	15
Middle managers	505	479	26
Office staff	2,551	2,405	146
Manual workers	24	24	-
Total	**3,226**	**3,039**	**187**

RELATED PARTIES TRANSACTIONS

In 2003, certain dealings took place with related parties, in which members of the board of directors own a stake directly or indirectly. In particular, IT consultancy services were provided by Kelyan S.p.A., in which Bernabè Franco S.p.A. holds a stake. The cost of these services, which involved a datawarehouse project and installation of IT systems, was EUR 1.3 million, of which EUR 1.1 million has already been paid. The services were charged at market prices.

Services costing a total of EUR 2.8 million were purchased from Interoute S.p.A. (formerly Eurostrade S.p.A., majority-owned by Group shareholder, the Sandoz Foundation). In addition, the parent Company paid the Company EUR 4 million, partly for services provided the previous year, while trade receivables in respect of Eurostrade total around EUR 500,000. The services provided (dark fibre and related maintenance) were charged at market prices. Shardna S.p.A. (controlled by shareholder and chairman Renato Soru) was invoiced for EUR 124,000 for a sub-lease on a Tiscali building in Cagliari. The invoice also passed on costs incurred by the Company.

List of companies

The table below lists Tiscali Group companies, specifying the consolidation method used.

COMPANY NAME	COUNTRY	% OWNED % DIRECT	% OWNED % INDIRECT	SHARE OF PROFIT	SECTOR	CONSOLIDATION METHOD
Tiscali S.p.a.					Internet and Telecom	F
Tiscali Czech Republic a.s.	Czech Rep.	100.0%		100.0%	Internet	F
Tiscali Telekomunikace s.r.o.	Czech Rep.	0.0%		0.0%	B2B	F
Tiscali Telecomunicaciones Sa	Spain	99.99%		99.99%	Internet	F
Excite Italia BV	Neth	100.0%		100.0%	Portal	F
Ideare S.p.A.	Italy	60.0%		60.0%	Software development	F
Tiscali Motoring S.r.l.	Italy	100.0%		100.0%	Portal	F
Informedia S.r.l. (1)	Italy	95.0%	5.0%	100.0%	Software development	F
Tiscali Information Tecnology System S.r.l.	Italy	100.0%		100.0%	Information Tecnology	E
Andaledda Spa	Italy	100.0%		100.0%	Inactive	E
Energy Byte Spa	Italy	100.0%		100.0%	Portal	E
Quinary S.p.A.	Italy	70.0%		70.0%	Software development	F
Best Engineering Spa	Italy	60.0%		60.0%	Software development	F
STS Studi Tecnologie Sistemi S.P.A.	Italy	50.0%		50.0%	Software development	F
Gilla Servizi Telecomunicazione S.r.l. (2)	Italy	90%	10.0%	100.0%	Call Center	E
Andala S.p.A.	Italy	85.0%		85.0%	Inactive	E
Nextra S.p.A.	Italy	100.0%		100.0%	B2B	F
Tiscali Datacomm AG (3)	Switz	83.4%	16.6%	99.9%	Internet and Telecom	F
Connect Sofware Inc	USA		100.0%	100.0%	Inactive	E
Tiscali Armement Sarl	France	0.0%		0.0%	Disposed in december 2003	E
Tiscali Finance Sa	Luxembourg	100.0%		100.0%	Finance	F
Tiscali Internet Limited Ltd	UK	100.0%		100.0%	Internet	F
Tiscali Deutschland GmbH	Germany	100.0%		100.0%	Holding	F
World Online GmbH	Germany		100.0%	100.0%	Internet	F
Brandgate GmbH	Germany		65.0%	65.0%	Inactive	F
Finanzdirect 24 GmbH	Germany		60.0%	60.0%	Inactive	F
Tiscali GmbH	Germany		100.0%	100.0%	Internet and Telecom	F
Tiscali Games GmbH	Germany		100.0%	100.0%	Portal	F
Nextra Deutschland GmbH	Germany		100.0%	100.0%	B2B	F
Nextra Deutschland Verwaltungs GmbH	Germany		100.0%	100.0%	B2B	F
Liberty Surf Group Sa	France	94.5%		94.5%	Holding	F
Tiscali Business Sa	France		100.0%	94.5%	B2B	F
Cyber Press Publishing Sa	France		15.8%	14.9%	Portal	F
Losir Net Sa	France		88.0%	13.1%	Portal	F
Tiscali Acces Sa (ex Liberty Surf Sa)	France		100.0%	94.5%	Internet	F
Film Non Stop Monsieur Cinema.Com Sa	France		100.0%	94.5%	Portal	F
Ovni Web Sa	France		100.0%	94.5%	Network management	F
Ceic S.r.l.	France		100.0%	94.5%	Portal	E
Respublica Sa	France		100.0%	94.5%	Portal	F
Tiscali Média Sa (ex Objectif Net Sa)	France		100.0%	94.5%	Network management	F
Liberty Contact Sa	France		50.0%	47.3%	Inactive	F
Infonie Promotions S.A.	France		100.0%	94.5%	Portal	F
Tiscali Télécom S.A.	France		100.0%	94.5%	Telecomunication	F
Intercall S.A.	France		88.0%	83.2%	Telecomunication	F
Intercall Hellas Sa	Grecia		100.0%	94.5%	Telecomunication	F
Liberty Surf Network Bv	Neth		100.0%	94.5%	Inactive	E
Liberty Telecom Bv	Neth		100.0%	94.5%	Inactive	E
Tiscali Telecom Sa	Spain		100.0%	94.5%	Inactive	E
Liberty Surf Comunication Ltd	UK		100.0%	94.5%	Inactive	E
X-Stream Network Inc	USA		100.0%	94.5%	Inactive	E
X-Stream Technologies Inc	USA		100.0%	94.5%	Inactive	E
Liberty Surf Uk Ltd	UK		100.0%	94.5%	Inactive	E

COMPANY NAME	COUNTRY	% OWNED % DIRECT	 % INDIRECT	SHARE OF PROFIT	SECTOR	CONSOLIDATION METHOD
Tiscali S.p.a.					Internet e Telecomunicazioni	F
World Online International Nv	Neth	99.5%		99.5%	Holding	F
Tiscali International Bv	Neth		100.0%	99.5%	Holding	F
TISCALI Telekomunikace Èeská republika s.r.o.	Czech Rep.		100.0%	99.5%	Internet	F
World Online Kft	Hungary		100.0%	99.5%	Inactive	E
World Online Poland Sp Z.O.O.	Poland		100.0%	99.5%	Inactive	E
Tiscali Denmark A/S	Denmark		100.0%	99.5%	Internet	F
Surfeu Oy	Finland		100.0%	99.5%	Internet	F
Tiscali As	Norway		100.0%	99.5%	Internet	F
Tiscali A.B.	Sweden		100.0%	99.5%	Internet	F
Home S.A.	Sweden		100.0%	99.5%	Internet	F
Tiscali Espana S.A.	Spain		100.0%	99.5%	Internet	F
World Online Epe	Greece		100.0%	99.5%	Inactive	E
World Online S.r.l. in liquidazione (4)	Italy		5.0%	5.0%	Inactive	E
Tiscali Österreich GmbH	Austria		100.0%	99.5%	Internet	F
Eunet EDV und Internet Dienstleistungs AG	Austria		100.0%	99.5%	B2B	F
Tiscali N.V.	Belgium		100.0%	99.5%	Internet and Telecom	F
Tiscali Integration S.A. (ex Wanadoo Belgium S.A.)	Belgium		100.0%	99.5%	Internet	F
Tiscali Switzerland Holding S.A.	Switz		100.0%	99.5%	Internet and Telecom	F
Surfeu.Com AG	Switz		100.0%	99.5%	Internet	F
World Online Ltd.	UK		100.0%	99.5%	B2B	F
Tiscali Business UK Plc.	UK		100.0%	99.5%	Holding	F
Tiscali Business GmbH	Germany		100.0%	99.5%	B2B	F
Nacamar Luxembourg Sarl (5)	Luxembourg		100.0%	99.5%	B2B	F
Nacamar Ltd	UK		100.0%	99.5%	B2B	F
Tiscali Business Austria GmbH	Austria		100.0%	99.5%	B2B	F
Tiscali Holdings UK Plc.	UK		100.0%	99.5%	Holding	F
Tiscali Uk Ltd	UK		100.0%	99.5%	Internet and Telecom	F
Telinko Uk Ltd	UK		100.0%	99.5%	Internet and Telecom	F
Connect Free Internet Services Ltd	UK		100.0%	99.5%	Internet	F
Springboard Internet Services Ltd	UK		100.0%	99.5%	Internet	F
World Online Telecom Ltd.	UK		100.0%	99.5%	Internet and Telecom	F
World Online Ltd.	UK		100.0%	99.5%	Internet	F
Tiscali Luxembourg S.A.	Luxembourg		100.0%	99.5%	Internet	F
Tiscali B.V.	Neth		100.0%	99.5%	Internet	F
12Move Vof (6)	Neth		100.0%	99.5%	Portal	F
Sonera Plaza	Neth		100.0%	99.5%	Portal	F
Wolstar B.V.	Neth		50.0%	49.7%	Inactive	F
World Online Partner B.V.	Neth		100.0%	99.5%	Holding	F
12Move ApS	Denmark		100.0%	99.5%	Inactive	F
Tiscali International Network B.V.	Neth		100.0%	99.5%	Network management	F
Tiscali International Network S.A.	France		100.0%	99.5%	Network management	F
Tiscali International Network SAU	Spain		100.0%	99.5%	Network management	F
Tiscali International Network S.p.A. (7)	Italy		100.0%	99.5%	Network management	F
Tiscali International Network GmbH	Germany		100.0%	99.5%	Network management	F
Tiscali International Network Ltd	UK		100.0%	99.5%	Network management	F
Myt Vision Bv	Neth		100.0%	99.5%	Inactive	F
Tiscali (Pty) Ltd	South Africa		100.0%	99.5%	Internet and Telecom	F
World Online Merchandising LLC	USA		0.0%	0.0%	Disposed	F
Wol Acquisition Corp.	USA		100.0%	99.5%	Inactive	F

(1) Tiscali S.p.A. owns 95% and Andaledda S.p.A. owns 5%
(2) Tiscali S.p.A. owns 90% and Tiscali Motoring S.r.l. owns 10%
(3) Tiscali S.p.A. owns 83.39% and Tiscali Switzerland Holding S.p.A. owns 16.61%
(4) Tiscali International BV owned 5%, which was sold in 2004
(5) Tiscali Business UK Plc owns 51% and Tiscali International BV owns 49%
(6) Tiscali BV owns 40% and World Online Partner BV owns 60%
(7) Tiscali International Network S.A. owns 90% and Tiscali S.p.A. owns 10%
(8) Consolidation methods: F = global; P = proportional; E = equity

The Tiscali Group's basis of consolidation is shown below.

List of investments in affiliated companies

COMPANY NAME	HEAD OFFICE	SHARE CAPITAL	PROFIT (LOSS) FOR THE YEAR	% OWNED
Holdings in affiliated companies				
Freetravel S.p.A. (being wound up)	Milan	500	(132)	50.0%
Stud Scarl	Cagliari	45	(5)	33.3%
Netchemya S.p.A. (being wound up)	Milan	22,750	(2,632)	20.0%
Ariete Telemedia S.r.l.	Milan	52	(31)	40.0%
Janna Scarl	Cagliari	102	(2)	33.0%

List of investments in other companies

HOLDINGS IN OTHER COMPANIES
Consorzio Green Management
CRS4 Scarl
Mix S.r.l.

Cash flow statement

CASH FLOW STATEMENT	31.12.2003	31.12.2002
A) Net debt at the end of the previous year	**286,911**	**517,480**
Net profit (loss) for the year	(242,448)	(593,145)
Depreciation, amortisation and write-downs	293,635	525,936
Net change in reserve for risks and charges liabilities	6,852	(21,620)
Net change in staff severance indemnity reserve	3,848	(96)
Write-downs on long-term investments	(749)	-
Change in net working capital, of which:	(1,666)	(120,838)
- change in receivables	(8,818)	33,942
- change in inventories	(3,596)	11,542
- change in accrued income and deferred charges	(49,040)	2,772
- change in payables	40,209	(225,060)
- change in accrued liabilities and deferred income	19,579	55,966
B) Cash flows from operations	**59,472**	**(209,763)**
Net changes in non-current assets		
- tangible assets	(60,353)	(89,210)
- intangible assets	(166,034)	(183,505)
- investments	(1,194)	17,606
C) Cash flows from investments	**(227,581)**	**(255,109)**
Change in financial payables	80,543	165,541
Changes in the consolidation area		107,910
Changes in minoritiy' interest	(9,973)	34,645
Other medium-/long-term liabilities	(21,625)	(91,393)
Other medium-/long-term assets		(3,200)
Changes in shareholders' equity	45,640	20,800
D) Cash flows from financing operations	**94,585**	**234,303**
E) Cash flows for the year (B + C + D)	**(73,524)**	**(230,569)**
F) Net debt at year end (A - E), of which:	**213,387**	**286,911**
Cash and cash equivalents and receivables from banks	203,544	209,570
Short-term investments	129,019	124,187
Short-term bank debt	(119,176)	(46,846)
Total	**213,387**	**286,911**

For the Board of Directors
The Chairman

Renato Soru

Balance Sheet Assets

(IN EUR)

			Assets	Due ← 12 Months 31.12.2003	Due ← 12 Months 31.12.2002	31.12.2003	31.12.2002
A)			**Capital contributions due from shareholders Portion called up**				
			Capital contributions due from shareholders			**-**	**-**
B)			**Non-current assets**				
	I		**Intangible assets**				
		1)	Start-up and expansion costs			2,205,662	5,769,504
		2)	Research, development and advertising costs			1,758,206	-
		3)	Industrial patent rights and intellectual property rights			22,791,580	20,299,049
		4)	Concessions, licenses, trademarks and similar rights			35,852,143	38,355,385
		5)	Goodwill			80,067	160,134
		6)	Payments on account and intangible assets in course of acquisition			321,213	5,712,022
		7)	Other			6,140,489	6,861,823
			Intangible assets			**69,149,360**	**77,157,917**
	II		**Tangible assets**				
		1)	Land and buildings			24,437,646	4,246,631
		2)	Plant and machinery			31,621,050	17,919,611
		3)	Industrial and commercial equipment			1,403,349	998,472
		4)	Other fixed assets			3,356,121	2,348,737
		5)	Payments on account and intangible assets in course of acquisition			-	9,261,892
			Tangible assets			**60,818,166**	**34,775,343**
	III		**Investments**				
		1)	**Investments in**				
			a) Subsidiaries	-	-	1,992,851,596	2,075,144,548
			b) affiliated companies	-	-	49,000	- -
			d) other companies	-	-	160,484	209,484
		2)	**Receivables**				
			d) from other companies	-	-	8,037,927	-
		3)	**Other securities**			**-**	**-**
		4)	**Own shares**			**-**	**-**
			Long-term investments	**-**	**-**	**2,001,099,007**	**2,075,354,032**
			Non-current assets			**2,131,066,533**	**2,187,287,292**

Balance Sheet Assets

(IN EUR)

		Assets	Due → 12 Months 31.12.2003	Due → 12 Months 31.12.2002	31.12.2003	31.12.2002
C)		**Current assets**				
I		**Inventories**				
	1)	Raw materials, supplies and consumables			940,962	1,207,975
	3)	Contract work in progress			1,430,923	-
	5)	Advance payments			-	-
		Total			**2,371,885**	**1,207,975**
II		**Receivables**				
	1)	From customers	-	-	49,098,510	46,582,593
	2)	From subsidiaries	17,328,067	97,328,067	102,874,942	161,556,422
	3)	From non-consolidated subsidiaries and affiliated companies		-	-	-
	5)	Other receivables	328,171	293,054	43,576,395	33,603,727
		Receivables	**17,656,238**	**97,621,121**	**195,549,847**	**241,742,742**
III		**Short term financial assets**				
	1)	In subsidiaries			-	3,209,000
	6)	Other securities			-	-
		Short term financial assets			**-**	**3,209,000**
IV		**Cash and cash equivalents**				
	1)	Bank and post office deposits			3,599,337	2,073,386
	2)	Cheques			-	-
	3)	Cash and other negotiable instruments			118,595	6,086
		Cash and cash equivalents			**3,717,932**	**2,079,472**
		Current assets			**201,639,664**	**248,239,189**
D)		**Accruals and deferrals**				
		Accrued income and deferred charges			5,394,360	1,863,668
		Accrued income and deferred charges			**5,394,360**	**1,863,668**
		Assets			**2,338,100,557**	**2,437,390,149**

Balance Sheet Liabilities

(IN EUR)

		Liabilities	Due ➞ 12 Months 31.12.2003	Due ➞ 12 Months 31.12.2002	31.12.2003	31.12.2002
A)		**Shareholders' equity**				
	I	Share capital			184,460,214	180,867,068
	II	Share premium reserve			1,506,685,834	1,632,896,251
	III	Revaluation reserve			-	-
	IV	Legal reserve			-	-
	V	Reserve for own shares held			-	-
	VI	Statutory reserves			-	-
	VII	Other reserves:				
		Reserve for rounding differences			(3)	-
	VIII	Retained earnings (losses carried forward)			-	-
	IX	Profit (loss) for the year			(114,534,520)	(152,296,834)
		Total shareholders' equity			**1,576,611,525**	**1,661,466,485**
B)		**Reserve for risks and charges**				
	1)	Pension provisions and similar obligations			-	-
	2)	Tax provisions			-	-
	3)	Other			23,436,967	54,701,926
		Reserve for risks and charges			**23,436,967**	**54,701,926**
C)		**Staff severance indemnity reserve**			**4,232,647**	**2,952,163**
D)		**Payables**				
	3)	Due to banks	31,945,826	12,460,008	63,765,594	44,118,548
	4)	Due to other lenders	-	-	26,263	1,919,336
	5)	Advance payments	-	-	-	-
	6)	Due to suppliers	8,447,775	14,520,600	111,891,636	100,692,421
	8)	Due to subsidiaries	-	-	539,397,807	554,159,937
	9)	Due to non-consolidated subsidiaries and affiliated companies	-	-	-	-
	11)	Due to tax authorities	-	-	1,916,851	888,832
	12)	Due to social security agencies	-	-	2,141,071	918,907
	13)	Other payables	-	-	8,266,324	7,597,092
		Payables	40,393,601	26,980,608	727,405,546	710,295,073
E)		**Accruals and deferrals**				
		Accrued liabilities and deferred income			6,413,872	7,974,502
		Accrued liabilities and deferred income			**6,413,872**	**7,974,502**
		Liabilities			**2,338,100,557**	**2,437,390,149**

Memorandum Accounts

(IN EUR)

			Memorandum Accounts	31.12.2003	31.12.2002
A)			**GUARANTEES GIVEN**		
	1)		**By third parties and Group companies**		
		a)	Sureties	565,976,059	254,828,643
			Total guarantees given	**565,976,059**	**254,828,643**
B)			**OTHER MEMORANDUM ACCOUNTS**		
		-	Leasing payments falling due	28,292,225	42,055,418
		-	Warrants	-	110,372
		-	Guarantees	15,879,064	10,877,167
			OTHER MEMORANDUM ACCOUNTS	**44,171,289**	**53,042,957**
C)			**GUARANTEES RECEIVED**		
	1)		**From third parties**		
		a)	Sureties	1,826,331	2,448,331
			Total guarantees received	**1,826,331**	**2,448,331**
			TOTAL MEMORANDUM ACCOUNTS	**611,973,679**	**310,319,931**

Profit&Loss Accounts

(IN EUR)

		Profit&Loss Accounts	31.12.2003	31.12.2002
A)		**Value of production**		
	1)	Revenues from sales and services	174,885,286	131,993,785
	2)	Changes in inventories of work in progress, semi-finished and finished products	-	-
	3)	Changes in contract work in progress	1,430,923	-
	4)	Increases in assets for work in progress (internal)	1,174,238	-
	5)	Other income		
		- Other revenues and income	9,076	8,184
		- Contributions to the operating account	2,864,784	8,885,062
		Total	**180,364,307**	**140,887,031**
B)		**PRODUCTION COSTS**		
	6)	Raw materials, supplies, consumables and goods	(3,723,071)	(2,068,325)
	7)	Services	(129,088,940)	(120,063,778)
	8)	Use of third-party assets	(20,850,075)	(20,436,809)
	9)	Personnel costs		
		a) Wages and salaries	(25,645,537)	(21,689,510)
		b) Social security contributions	(5,819,691)	(4,207,629)
		c) Staff severance indemnity	(1,526,998)	(1,375,259)
		e) Other costs	(73,016)	(372,007)
	10)	Depreciation and amortisation		
		a) Amortisation of intangible assets	(20,920,347)	(15,327,621)
		b) Depreciation of fixed assets	(8,202,411)	(4,537,348)
		c) Other write-downs of non-current assets	-	-
		d) Write-down of receivables included in current assets and cash and cash equivalents	(22,504,669)	(13,163,061)
	11)	Changes in inventories of raw materials, supplies and consumables	(267,192)	(176,789)
	12)	Risk provisions	(14,401,127)	(31,995,843)
	13)	Other provisions	-	-
	14)	Other operating expenses	(969,564)	(683,896)
		Production costs	**(253,992,638)**	**(236,097,875)**
(A - B)		**Difference between value of production and costs**	**(73,628,331)**	**(95,210,844)**
C)		**Financial income and charges**		
	15)	**Income from equity investments**		
		a) In subsidiaries	-	35,435,475
	16)	**income other than the above**		
		a) From receivables listed under non-current assets		
		b) From securities listed under non-current assets other than equity investments		
		c) From securities listed under current assets other than equity investments		
		d) Earnings other than the above		
		from third parties	524,242	391,169
		from subsidiaries	42,369	44,835
	17)	**Interest and other financial charges**		
		a) Payable to third parties	(2,750,149)	(2,057,914)
		b) Payable to subsidiaries	(106,349)	(753,114)
		Financial income and charges	**(2,289,887)**	**33,282,108**

Profit&Loss Accounts

(IN EUR)

		Profit&Loss Accounts	31.12.2003	31.12.2002
D)		**Adjustments to the value of financial assets**		
	18)	**Write-ups**		
	19)	**Write-downs**		
		of equity investments	(41,784,246)	(71,344,556)
		Adjustments to the value of financial assets	**(41,784,246)**	**(71,344,556)**
E)		**Extraordinary income (charges)**		
	20)	**Extraordinary income**		
		a) Income	20,626,004	979,240
	21)	**Extraordinary charges**		
		a) Charges	(16,854,065)	(20,001,229)
		b) Capital losses on disposals of non-current assets	(603,995)	(1,553)
		Extraordinary income (charges)	**3,167,944**	**(19,023,542)**
		Profit (loss) before tax	**(114,534,520)**	**(152,296,834)**
	22)	**Income tax**		
		Net Profit (loss) for the year	**(114,534,520)**	**(152,296,834)**

Renato Soru

For the Board of Directors
The Chairman

Renato Soru

PARENT COMPANY: NOTES TO THE ANNUAL ACCOUNTS

Form and content of the annual accounts

1) Criteria used to prepare the accounts

These accounts have been prepared in accordance with art. 2423 and subsequent articles of the Italian civil code, and consist of the balance sheet, the profit and loss account and the notes to the accounts, which conform to the standards set out in art. 2427 of the Italian civil code, and pursuant to art. 2423, constitute an integral part of this annual report and accounts. For ease of comparison the accounts contain figures for the 2002 financial year, which have been prepared and presented in the same way as 2003 data. Moreover, pursuant to legislative decree 127/1991, the consolidated accounts are presented together with those of Tiscali S.p.A..

In order to provide a better overview of the Company's operations and financial position, the following accounting statements are supplied as supplementary information:

- Restated Balance Sheet;
- Restated Profit and Loss Account;
- Statement of Changes in Financial Position.

2) Accounting policies

a) General criteria

The criteria used in the preparation of the accounts conform to those stipulated by the aforementioned regulations. These criteria have been integrated and interpreted in accordance with the accounting principles issued by Italy's national association of chartered accountants (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri), and where necessary, the accounting principles recommended by the International Accounting Standards Board. The same criteria are used as in previous years, particularly with regard to valuations and continuity in applying the same principles. The valuation of balance sheet items was performed based on the general principles of prudence and competence, on a going concern basis. For the purposes of accounting entries, the economic substance of transactions prevails over their legal form. Investments are therefore booked at the time of payment. Profits are included only if they are recorded within the period under review, while provision is made for risks and losses that may come to light at a later date. Miscellaneous items included under single accounting entries have been valued separately.

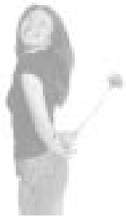
Assets destined for long-term use have been listed under non-current assets.

With specific reference to the parent Company accounts, the same criteria are used as in previous years, particularly with regard to valuations and continuity in applying the same principles. The valuation of balance sheet items was performed based on general criteria of prudence and competence, on a going concern basis. In light of this, please note the following:

a1) Going concern basis

These accounts have been prepared on a going concern basis, since, as referred to in the Report on operations, the prospects for the sector in which Tiscali operates and the Group's competitive position mean that the Group's target of achieving a better financial structure is well within its grasp, as the business plans, the disposal programme for non-core assets and the refinancing strategy indicate. In particular, attainment of the targets set out in the strategic plan represent, in this context, a key factor in the development of Tiscali's financial position and the stability of its business and finances, especially as regards the redemption of outstanding bonds.

The Company's position as a going concern is also supported by the substantial improvement in results achieved in 2003, and by the expectations of further substantial and ongoing advances in 2004 and subsequent years, as set out in the business plan, which was



drawn up based on assumptions that take into account the information currently available on market trends. Specifically, the Company's business plan points to the generation of cash flow from the second half of 2004, and the achievement of a net profit in 2005.

a2) Other general criteria

For the purposes of accounting entries, the economic substance of transactions prevails over their legal form. Investments are therefore booked at the time of payment. Profits are included only if they are recorded within the period under review, while provision is made for risks and losses that may come to light at a later date. Miscellaneous items included under single accounting entries have been valued separately. Assets destined for long-term use have been listed under non-current assets.

b) Write-downs and write-backs

The value of tangible and intangible assets whose useful life is limited over time are written down respectively through depreciation and amortisation charges. These tangible and intangible assets, and any other assets, are written down each time a permanent loss of value is noted; however if the reasons for the loss of value are considered to no longer apply, then the original value is re-established. The method for calculating depreciation and amortisation charges is explained separately in these notes.

c) Write-ups

To date, no write-ups have been made.

d) Exceptions

No exceptions to the accounting policies set out in the legislation pertaining to accounting statements have been made in this, or any other financial year.

Key principles and criteria

e) Intangible assets

Start-up and expansion costs are entered under the appropriate accounting entry on the assets side of the balance sheet, and are amortised for a period not exceeding five years starting from the financial year in which the costs were incurred.

Research, development and advertising costs are as a rule debited to the profit and loss account of the financial year in which they were incurred. Exception is made for expenditure on the development of new products, whose R&D and advertising costs are posted under the appropriate line item under "assets" and amortised over two years starting from the financial year in which they were incurred, in consideration of the time taken to recoup such costs. Please note that advertising costs incurred in the first half of the year in relation to the launch of new broadband products and services are recorded as capitalised costs.

Industrial patent rights and intellectual property rights are recorded at their acquisition cost and amortised using the straight-line method in accordance with the period of use established by the agreement. Under no circumstances shall the amortisation period exceed five years from the financial year in which the costs were incurred.

Concessions, licenses, trademarks and similar rights are also recorded at their acquisition cost and amortised using the straight-line method in accordance with the period of use established by the agreement. The amortisation period shall not exceed five years from the financial year in which the costs were incurred, unless other arrangements have been made. In particular, IRUs may be amortised over 15 years, depending on the length of the concession.

Maintenance and upgrade costs on third-party assets are listed under "other" and are depreciated over either the estimated useful life of the asset using the straight-line method, or over the residual period of the agreement, whichever is the shorter.

f) Tangible assets and depreciation

Non-current assets are recorded at purchase or production cost, including any additional charges.

Depreciation is calculated on the basis of cost using the straight-line method, depending on the estimated residual useful life of the asset.

Routine maintenance expenses are charged to the profit and loss account in full. Maintenance expenses of an incremental nature are attributed to the asset to which they refer and depreciated over the estimated residual life of the asset.

A summary of depreciation rates follows. These remain unchanged with respect to the previous financial year:

Plant and machinery	
- general plant and machinery	20%
- minor plant and machinery	12%
- specific plant and machinery	20%
- other plant and machinery	20%
Industrial and commercial equipment	
- network and other specific equipment	20%
- other industrial and commercial equipment	20%
- miscellaneous minor items	25%
Other assets	
- office furniture	12%
- IT and electronic office equipment	20%
- vehicles	25%
- other assets	20%

Depreciation rates adopted for specific plant and machinery (IP network technologies and Ethernet, commercially know as routers and L3/L2 switches), which constitutes the item most commonly booked under tangible assets, are confirmed by an independent report prepared for the purposes of these accounts.

In the year in which an asset is purchased, the depreciation charge is reduced by 50 per cent. This accounting approach is adopted to provide a reasonable approximation of the time distribution of asset purchases during the year.

Capital equipment leasing operations performed in the financial year under consideration are posted on the balance sheet based on the interpretation of current legislation, i.e. leasing fees must be posted in the period to which each payment refers.

g) Investments

Investments in Group and affiliated companies

Investments in Group and affiliated companies that are classed as non-current financial assets are valued at cost, based on the acquisition or subscription price. The cost is lowered when there is a permanent loss of value.

Long-term investments in the form of loans are valued at their estimated realisable value.

h) Inventories

Raw materials, work in progress and finished products

Inventories, mainly consisting of goods for resale, are valued at either their purchase cost calculated using the weighted average method, or their estimated market value, whichever is the lower.

Contract work in progress is valued in line with the proportion of the work completed.

i) Receivables

Receivables are listed at their estimated realisable value. This value is obtained by direct write-down of receivables. Receivables also include amounts pertaining to invoices still to be issued for services rendered during the year.

k) Accruals and deferrals

Accruals and deferrals include only the proportion of earnings and charges pertaining to the financial year that will be booked in subsequent financial years, and the proportion of revenues and expenses booked or incurred before the end of the financial year but pertaining to the subsequent financial years. At no time shall this account include portions of revenues and expenses spread over two or more financial years, the amount of which varies over time.

l) Reserves for risks and charges

Risk funds are allocated and shown as liabilities on the balance sheet, for the purpose of covering potential Company liabilities that are certain or very likely to be incurred, for which the relevant amounts and dates are not known at the end of the financial year.

m) Income tax

The Company incurred no tax liabilities during the year, since it generated no taxable income. As a precaution, tax benefits carried forward in respect of losses from previous years are not included in the accounts.

n) Staff severance indemnity reserve

This provision corresponds to all amounts due to employees under current laws.

o) Payables

Payables are recorded at nominal value.

p) Risks, commitments and guarantees

Commitments and guarantees are shown in the memorandum accounts at their contractual value.

The guarantees take the form of surety bonds issued in favour of third parties in execution of contractual obligations.

Commitments refer to obligations resulting from agreements that have been signed but which have yet to be performed, and from rental and operating lease charges to be posted in future financial years.

The risks deemed most likely to generate a liability are described in the notes, and an allocation to the reserve for risk is made as appropriate. Those risks deemed to represent only a possible liability are also described in the notes, but no allocation is made to a specific risk fund, in line with standard accounting criteria. Remote risks are not taken into consideration.

q) Recording of revenues, income, costs and charges

Revenues and income, and costs and charges are recorded in the accounts net of returns, discounts, rebates and bonuses. In particular:

Voice and dial-up revenues are booked based on the amount of actual traffic recorded at the end of the financial year.

Activation revenues and costs (installation and modems/equipment) for broadband services (ADSL) are charged to the profit and loss account in line with the expected duration of the customer's account with the Company, estimated at 36 months years based on Company data and recent trends. Amounts relating to other financial years are recorded under deferred income (income) or deferred charges (costs).

Business services revenues are recorded in relation to the period in which they are earned.

Financial income is posted on the basis of pro-tempore accounting principles.

r) Recording of foreign currency amounts

Receivables and payables in foreign currencies are adjusted to the exchange rates in force at the end of the period, taking into account any hedging agreements that may exist. Any exchange rate gains or losses are booked to the profit and loss account.

Analysis of Balance sheet items

ASSETS

EUR/000

B) Non-current assets

I – Intangible assets

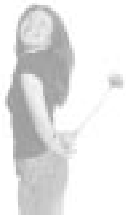
	31.12.2003 COST	31.12.2003 (AMORTISATION)	31.12.2003 NET BOOK VALUE	31.12.2002 COST	31.12.2002 AMORTISATION	31.12.2002 NET BOOK VALUE
start-up and expansion costs	19,990	(17,784)	2,206	19,990	(14,219)	5,770
R&D and advertising costs	3,516	(1,758)	1,758	26	(26)	-
industrial patent and intellectual property rights	36,021	(13,229)	22,792	26,328	(6,029)	20,299
concessions, licences, trademarks and similar rights	49,260	(13,408)	35,852	45,765	(7,410)	38,355
goodwill	400	(320)	80	400	(240)	160
payments on account and assets in course of acquisition	321	-	321	5,712	-	5,712
other	12,119	(5,979)	6,140	11,541	(4,679)	6,862
	121,627	**(52,478)**	**69,149**	**109,762**	**(32,603)**	**77,158**

The following is a summary of changes that occurred in the accounts during the year:

	BALANCE 31.12.2002	INCREASES	WRITE-UPS (WRITE-DOWNS)	OTHER CHANGES	AMORTISATION	BALANCE 31.12.2003
start-up and expansion costs	5,770	-	-	-	(3,564)	2,206
R&D and advertising costs	-	3,516	-	-	(1,758)	1,758
industrial patent and intellectual property rights	20,299	3,981	-	5,712	(7,200)	22,792
concessions, licences, trademarks and similar rights	38,355	3,494	-	-	(5,997)	35,852
goodwill	160	-	-	-	(80)	80
payments on account and assets in course of acquisition	5,712	321		(5,712)	-	321
other	6,862	2,981	-	(1,382)	(2,321)	6,140
	77,158	**14,293**	**-**	**(1,382)**	**(20,920)**	**69,149**

The “start-up and expansion costs” line includes:

	31.12.2003	31.12.2002	CHANGE
start-up and expansion costs			
capital increase expenses	1,765	3,473	(1,708)
start-up costs	349	2,066	(1,717)
other	92	231	(139)
	2,206	**5,770**	**(3,564)**



The “start-up and expansion costs” line, which accrued mainly in 1999, includes the cost of starting network roll-out activities (installation and switchboard activation) and of the first launch campaign for Internet access services.

Decreases are due to the normal process of amortisation.

The item “R&D and advertising costs” in 2003 includes advertising and promotional costs incurred in the first half of the year in relation to the launch of broadband (ADSL) services. These costs have been capitalised because they refer to specific advertising campaigns necessary to launch broadband services. These are innovative services that are expected to deliver substantial and ongoing financial returns, as indicated by the results achieved in the second half of 2003 and early months of 2004.

The costs are to be amortised over two financial years, starting in 2003.

The “industrial patent and intellectual property rights” line mainly includes applications software acquired for an unlimited period and customised for the exclusive use of the Company. The EUR 9.7m increase is mainly attributable to the costs relating to licences and the development of software and other services acquired as part of the “mobile Internet” project, investment relating to the development of the “datawarehouse” project (both projects were completed and entered operation during the year), and costs involved in the implementation of the Company’s management and administration platform. Around EUR 1.9 million of the increase relates to capitalised costs in respect of the development of internal management software.

The change in “concessions, licences, trademarks and similar rights” relates to the purchase of software licences and associated costs (EUR 3.5m). In particular, this includes renewals of licences for access systems and management services supplied on the network, and management and administration software purchased by the Group.

This item includes EUR 27.8m for the purchase of exclusive rights to fibre optics (IRUs) over 15 years. These rights will be amortised over the life of the contract.

The item “payments on account and assets in course of acquisition” shows a decrease of EUR 5.7 million versus the previous year, recorded under “other changes”, mainly due to the definitive allocation to the item “industrial patent and intellectual property rights” of investments which were deemed to come under “industrial patents”, and of other minor projects.

The “other” line chiefly relates to investment in network development, and adaptation of technical sites and operational and administrative offices. The EUR 1.4 million decrease relates to the write-down of “upgrade costs” spent on the headquarters in Cagliari that were removed during the year following the completion of the work on the new building and subsequent transfer there.

II – Tangible assets

A summary of the changes in the accounts over the period, with regard to the historical costs of tangible assets, is shown below:

COSTS	BALANCE 31.12.2002	INCREASES	WRITE-UPS	OTHER CHANGES	(DISPOSALS)	BALANCE 31.12.2003
land and buildings						
- land	4,247	-	-	-	-	4,247
- industrial buildings	-	4,368	-	16,130	-	20,498
	4,247	**4,368**	**-**	**16,130**	**-**	**24,745**
plant and machinery						
- general plant and machinery	1,381	1,262	-	11,206	-	13,849
- specific plant and machinery	19,979	7,005	-	769	-	27,753
- other plant and machinery	1,977	53	-	-	-	2,030
	23,337	**8,320**	**-**	**11,975**	**-**	**43,632**
industrial and commercial equipment						
- network and other specific equipment	466	681	-	-	-	1,147
- other equipment	1,677	31	-	19	-	1.727
- miscellaneous minor items	7	173	-	19	-	199
	2,150	**885**	**-**	**38**	**-**	**3.073**
other assets						
- office furniture	1,321	477	-	973	-	2,771
- IT and electronic office equipment	2,348	24	-	-	-	2,372
- other assets	367	319	-	-	(2)	684
	4,036	**820**	**-**	**973**	**(2)**	**5,827**
payments on account and assets in course of acquisition						
- assets in course of acquisition	8,125	21,075	-	(29,116)	(84)	-
- payments on account	1,137	9	-	(1,146)	-	-
	9,262	**21,084**	**-**	**(30,262)**	**(84)**	**-**
	43,032	**35,477**	**-**	**(1,146)**	**(86)**	**77,277**

A summary of changes in depreciation over the period is shown below:

DEPRECIATION	BALANCE 31.12.2002	RATE OF DEPRECIATION	WRITE-DOWNS	OTHER CHANGES	(DISPOSALS)	BALANCE 31.12.2003
land and buildings						
- land	-	307	-	-	-	307
- industrial buildings		-	-	-	-	-
	-	**307**	**-**	**-**	**-**	**307**
plant and machinery						
- general plant and machinery	472	1,447	-	-	-	1,919
- specific plant and machinery	3,693	4,773	-	-	-	8,466
- other plant and machinery	1,255	371	-	-	-	1,626
	5,420	**6,591**	**-**	**-**	**-**	**12,011**
industrial and commercial equipment						
- network and other specific equipment	104	161	-	-	-	265
- other equipment	1,045	332	-	-	-	1,377
- miscellaneous minor items	2	26	-	-	-	28
	1.151	**519**	**-**	**-**	**-**	**1.670**
other assets						
- office furniture	375	248	-	-	-	623
- IT and electronic office equipment	1,123	460	-	-	-	1,583
- other assets	188	77	-	-	-	265
- payments on account and assets in course of acquisition	-	-	-	-	-	-
	1,686	**785**	**-**	**-**	**-**	**2,471**
	8,257	**8,202**	**-**	**-**	**-**	**16,459**

A summary of the changes in the accounts over the period, with regard to the net book value of non-current assets, is shown below:

NET BOOK VALUE	BALANCE 31.12.2002	INCREASES	WRITE-UPS AND OTHER CHANGES	(DEPRECIATION AND WRITE-DOWNS)	(DISPOSALS)	BALANCE 31.12.2003
land and buildings						
- land	4,247	-	-	(307)	-	3,940
- industrial buildings	-	4,368	16,130	-	-	20,498
	4,247	**4,368**	**16,130**	**(307)**	**-**	**24,438**
plant and machinery						
- general plant and machinery	909	1,262	11,206	(1,447)	-	11,930
- specific plant and machinery	16,286	7,005	769	(4,773)	-	19,287
- other plant and machinery	723	53	-	(371)	-	404
	17,918	**8,320**	**11,975**	**(6,591)**	**-**	**31,621**
industrial and commercial equipment						
- network and other specific equipment	362	681	-	(161)	-	882
- other equipment	632	31	19	(332)	-	350
- miscellaneous minor items	5	173	19	(26)	-	171
	999	**885**	**38**	**(519)**	**-**	**1,403**
other assets						
- office furniture	946	477	973	(248)	-	2,148
- IT and electronic office equipment	1,225	24	-	(460)	-	789
- other assets	179	319	-	(77)	(2)	419
	2,349	**820**	**973**	**(785)**	**(2)**	**3,356**
payments on account and assets in course of acquisition						
- assets in course of acquisition	8,125	21,075	(29,116)	-	(84)	-
- payments on account	-	1,137	9	(1,146)	-	-
	9,262	**21,084**	**(30,262)**	**-**	**(84)**	**-**
	34,775	**35,477**	**(1,146)**	**(8,202)**	**(86)**	**60,818**

The “land” item covers investment in land acquired for the Company’s new headquarters in Cagliari. The land is pledged as a EUR 70 million guarantee to Banca CIS in respect of financing provided to fund the entire project.

The item “industrial buildings” covers investment in the new headquarters in respect of work that was begun in 2002 and completed in 2003. It includes interest charges of EUR 0.5 million on the loan taken out to purchase the land and to cover building costs.

The increase in “general plant” is also chiefly attributable to the purchase of technical plant for the new headquarters.

Plant and machinery mainly consist of technical equipment for the creation of internal networks and equipment for site set-up, servers, personal computers and call centre equipment.

The increases recorded under “specific plant” relate to new equipment (routers, servers and transmission equipment) purchased to support the development of ADSL services, and equipment costs following the transfer to the new headquarters.

Increases totalling EUR 21.1 million and decreases of EUR 29.2 million recorded under “payments on account” reflect the completion of the new headquarters and the subsequent restatement of the amounts concerned under the relevant accounting entries.

III – Investments

INVESTMENTS IN GROUP COMPANIES

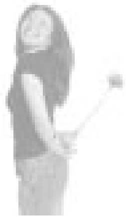
As of 31 December 2003, this item included holdings in subsidiaries and affiliated companies totalling EUR 1,992.9m and holdings in other companies (EUR 0.2m).

The tables below show the detailed accounting entries as of 31 December 2003 and related changes with respect to the same period of the previous financial year, as well as a list of the Company's holdings in Group and affiliated companies pursuant to art. 2427, paragraph 5 of the Italian civil code.

BREAKDOWN OF EQUITY INVESTMENTS

		31.12.2003			31.12.2002	
SUBSIDIARIES	**COST**	**WRITE-UPS (DOWNS)**	**B/S VALUE**	**COST**	**WRITE-UPS (DOWNS)**	**B/S VALUE**
Best Engineering S.p.A.	5,643	(4,353)	1,290	5,643	(4,353)	1,290
Energy Byte S.r.l.	677	(677)	-	677	(677)	-
Excite Italia BV	17,769	(5,000))	12,769	30,648	-	30,648
Ideare S.p.A.	6,745	(3,747)	2,998	6,745	(3,747)	2,998
Informedia S.r.l.	535	(535)	-	535	(535)	
Liberty Surf Group S.A.	599,812	(80,883)	518,929	599,812	(80,883)	518,929
Tiscali Business Services S.p.A. (ex Nextra)	1,252	-	1,252	-	-	-
Quinary S.p.A.	29,474	(28,378)	1,096	29,474	(18,378)	11,096
STS Studi Tecnologie e Sistemi S.r.l.	1,291	-	1,291	3,228	-	3,228
Tiscali Armement Sarl		-	-	892	-	892
Tiscali Datacomm AG	75,623	(58,610)	17,013	75,622	(35,300)	40,322
Tiscali Deutschland GmbH	283,475	(247,088)	36,387	283,475	(230,309)	53,166
Tiscali Finance S.A.	125	-	125	125	-	125
Tiscali Motoring S.r.l.	500	-	500	500	-	500
Tiscali Telecomunicaciones S.A.	2,452	(2,327)	125	2,452	(2,327)	125
World Online International N.V.	1,811,994	(415,725)	1,396,269	1,809,694	(400,660)	1,409,034
Andaledda S.p.A.	103	-	103	88	-	88
Connect Software Inc	1,027	-	1,027	1,027	-	1,027
Gilla Servizi Telecomunicaz. S.r.l.	1,295	(1,250)	45	1,295	(1,250)	45
Tiscali Czech Republic Sro	39	-	39	39	-	39
Tiscali ITS S.r.l.	1,593	-	1,593	1,593	-	1,593
	2,841,424	**(848,572)**	**1,992,852**	**2,853,564**	**(778,419)**	**2,075,145**

		31.12.2003			31.12.2002	
AFFILIATED COMPANIES	**COST**	**WRITE-UPS (DOWNS)**	**B/S VALUE**	**COST**	**WRITE-UPS (DOWNS)**	**B/S VALUE**
FreeTravel S.p.A. (being wound up)	250	(250)	-	250	(250)	-
Ariete Telemedia S.r.l.	744	(744)	-	744	(744)	-
Stud. Soc. Consortile	15	-	15	15	-	15
Netchemya S.p.A. (being wound up)	4,550	(4,550)	-	4,550	(4,550)	-
Janna Scpa	34	-	34	34	-	34
	5,593	**(5,544)**	**49**	**5,593**	**(5,544)**	**49**



OTHER COMPANIES	31.12.2003 COST	WRITE-UPS (DOWNS)	B/S VALUE	31.12.2002 COST	WRITE-UPS (DOWNS)	B/S VALUE
Crs4	126	-	126	126	-	126
Consorzio Green Management	-	-	-	5	(5)	-
Mix S.r.l.	1	-	1	1	-	1
Tiscali Int.l Network S.p.A. (ex Nets Broadband S.p.A.)	33	-	33	34	-	34
	160	**-**	**160**	**166**	**(5)**	**161**

CHANGES DURING THE YEAR

The changes in each holding during the year are shown in the table below.

	BALANCE 31.12.2002	INCREASES	(DISPOSALS)	WRITE-UPS (DOWNS)	OTHER CHANGES	BALANCE 31.12.2003
SUBSIDIARIES						
Best Engineering S.p.A.	1,290	-	-	-	-	1,290
Energy Byte S.r.l.	-	-	-	-	-	-
Excite Italia BV	30,648	3,398	(2,776)	(5,000)	(13,500)	12,770
EUnet Edv und Internet Dienstleistung	-	2,101	(2,101)	-	-	-
Home Se AB	-	550	(550)	-	-	-
Ideare S.p.A.	2,998	-	-	-	-	2,998
Informedia S.r.l.	-	-	-	-	-	-
Liberty Surf Group S.A.	518,929	-	-	-	-	518,929
Tiscali Business Services S.p.A. (ex Nextra)	-	1,252	-	-	-	1,252
Quinary S.p.A.	11,096	-	-	(10,000)	-	1,096
STS Studi Tecnologie e Sistemi S.r.l.	3,228	-	(1,937)	-	-	1,291
Tiscali Armement Sarl	892	-	(892)	-	-	-
Tiscali Datacomm AG (ex Datacomm AG)	40,322	3,474	-	(26,784)	-	17,012
Tiscali Deutschland GmbH (ex Nikoma)	53,166	-	-	-	(16,779)	36,387
Tiscali Finance S.A.	125	-	-	-	-	125
Tiscali Motoring S.r.l. (ex Motorcity S.p.A.)	500	-	-	-	-	500
Tiscali Telecomunicaciones S.A.	125	-	-	-	-	125
World Online International N.V.	1,409,034	2,300	-	-	(15,064)	1,396,270
Andaledda S.p.A.	88	15	-	-	-	103
Connect Softwer Inc	1,027	-	-	-	-	1,027
G.S.T. Gilla Servizi Telecomunicaz. S.r.l.	45	-	-	-	-	45
Tiscali Czech Republic Sro	39	-	-	-	-	39
Tiscali Internet Limited	-	598	(598)	-	-	-
Tiscali ITS S.r.l.	1,593	-	-	-	-	1,593
	2,075,145	**13,688**	**(8,854)**	**(41,784)**	**(45,343)**	**1,992,852**

With regard to the changes that took place in 2003 versus the previous year, increases totalled EUR 13.7 million, while decreases totalled EUR 96 million, comprising disposals (EUR 8.9 million), write-downs (EUR 41.8 million) and other changes (EUR 45.3 million). Other changes break down as EUR 13.5 million relating to a reduction in the share capital of Excite Italia BV, and EUR 31.8 million in respect of the reallocation of the portion of reserves for risks and future liabilities recorded in the accounts the previous year to cover charges relating to shareholdings. In the 2003 accounts, the latter amount relates to Tiscali Deutschland GmbH (EUR 16.8 million) and World Online International N.V. (EUR 15.0 million).

As indicated in the section on accounting policies above, equity investments are recorded at cost and written down in the event of a permanent loss of value, as required by the Italian civil code. The balance sheet value of shareholdings, including cases where these figures are higher than those obtained by valuing the shareholdings using the equity method, are still representative of their value, as they take into account the goodwill attached to each holding.

Moreover, values will be confirmed by an independent consultant appointed to verify the book values of shareholdings listed in the accounts. The consultant's report has been commissioned by the directors of Tiscali S.p.A. to ascertain whether any permanent losses of value have been recorded in respect of the shareholdings listed in the accounts. For information on the treatment of holdings in the consolidated accounts, please consult the section on "consolidation differences" (with regard to goodwill) in the notes to the consolidated accounts of the Tiscali Group.

The balance sheet value of each shareholding is set out below, with a brief description of the most important operations carried out during the year.

Best Engineering S.p.A. (EUR 1.2 million)

Best Engineering provides georeferencing services and technologies. No changes took place during the year, and no permanent loss of value was recorded following those already booked in previous years.

Energy Byte S.r.l.

The holding in Energy Byte was written off in 2001. As of 31 December 2003, there were no grounds for writing up its book value as the Company is to be wound up.

Excite Italia BV (EUR 12.8 million)

Excite Italia BV operates in the Internet media sector via its Italian branch. Through its portal, it focuses on attracting advertising. Tiscali acts as an advertising agency on Excite's behalf.

In March 2003, the shareholders of Excite Italia BV approved a EUR 13.5 million reduction in the Company's share capital, which was deemed to be higher than necessary, and the value of Tiscali's shareholding was reduced by the same amount.

Two other changes (an increase of around EUR 3.4 million and a decrease of EUR 2.7 million) were linked to an option to purchase and subsequently sell 384 shares in the Company that had been assigned to the management in March 2003, following implementation of agreements to purchase shares in the Company.

The shareholding has been written down by a further EUR 5.0 million, as the Company's results—although positive in 2003—indicated that a permanent loss of value had taken place, taking into account the book value of the holding.

EUnet Edv und Internet Dienstleistungs AG

Tiscali S.p.A. acquired 100% of Austrian ISP EUnet Edv und Internet Dienstleistungs in June 2003 for EUR 2.1 million, paid for in newly-issued shares in Tiscali S.p.A.. At the end of the year, the Company was sold to Tiscali subsidiary Tiscali International BV at its book value, and then merged with Tiscali's Austrian subsidiary, as part of the Group's strategy of optimising its organisational structure.

Home.se AB

In April 2003, Tiscali S.p.A. signed an agreement to purchase 100% of Swedish Company Home.se AB, for EUR 0.6 million, which was paid for in newly-issued shares in Tiscali S.p.A.. At the end of the year, the Company was sold at its book value to Tiscali AB, an indirectly-owned Swedish subsidiary.

Ideare S.p.A. (EUR 2.9 million)

Ideare operates in the Internet sector, particularly in the development of search engines and related activities. No changes took place during the year with regard to this Company, nor were any additional permanent losses of value noted following those recorded the previous year.

Liberty Surf Group S.A. (EUR 518.9 million)

Liberty Surf Group S.A., a Company listed on the Paris stock market (Nouveau Marché) is the sub-holding Company for Group activities in France, and represents one of its biggest investments. In the same way as with other holdings, the controlling stake acquired in Liberty Surf in early 2001 was written down at the end of 2001, when a permanent loss of value was identified. Since then, however, no other changes have taken place, and no reasons for further write-downs have arisen, taking into account the trend in results recorded over the last two financial years and those set out in the Group's business plan. The value of the holding, which includes a substantial amount of goodwill, was confirmed by the independent consultancy report that was used to prepare this annual report.

Tiscali Business Service S.p.A. (EUR 1.3 million)

The entire share capital of Nextra S.p.A. was acquired in March 2003 from Norwegian companies Telenor Business Solution AS and Telenor Business Solutions Holding AS, for approximately EUR 1.3 million, which was paid for in newly-issued shares in Tiscali S.p.A. (643,950 shares) in July 2003. Nextra was later renamed Tiscali Business Service S.p.A..

Quinary S.p.A. (EUR 1.0 million)

The holding in Quinary, a systems integration and software development Company was written down by EUR 10.0 million in 2003. The reason for the write-down was the poor business and financial position of the subsidiary in recent periods, which failed to achieve a recovery in 2003. Quinary has also been undergoing a restructuring process aimed at redefining its role within the Tiscali Group. The residual book value of the holding mainly consists of goodwill.

STS Studi Tecnologie e Sistemi S.r.l. (EUR 1.3 million)

During the year, 35% of STS was sold to other Group companies, including a 15% stake acquired by both GST Gilla Servizi Telecomunicazioni S.r.l. and Andaledda S.p.A.. The total acquisition cost was EUR 1.9 million, corresponding to the book value of the Company. However, the Group's investment in this Company continues to be listed under holdings in subsidiaries. The book value of STS largely consists of goodwill.

Tiscali Armement Sarl

During the year, Tiscali Armement, owner of a yacht used to promote the Tiscali Group, was sold to third parties for EUR 0.3 million, generating a capital loss of EUR 0.6 million.

Tiscali Datacomm AG (EUR 17.0 million)

The Group's controlling stake in this Swiss-based ISP (around 83% of the share capital; the rest is owned indirectly via World Online International N.V.) was subject to a substantial write-down in 2003. The write-down was made in line with the findings of the independent consultant's report, in relation to operating assets owned by the Tiscali Group in several countries, and reflects the current value of the Company, taking into account its business and financial prospects, as indicated by its business plan.

Tiscali Deutschland GmbH (EUR 36.4 million)

Tiscali Deutschland GmbH (which controls Tiscali GmbH) owns a substantial proportion of the Group's operating assets in Germany. As referred to above, the book value as of 31 December 2003 of this holding is recorded after the restatement of an item for EUR 16.7 million that was previously included under provisions for risks and future liabilities. During the year, no other changes were recorded in the value of this holding, which remained representative of its underlying assets, as confirmed by the independent consultant's report. The accounts of Tiscali Deutschland show a negative figure for shareholders' equity (see table below). This situation is expected to be resolved via operations under way to convert the share capital into credits in respect of other Tiscali Group companies.

Tiscali Finance S.A.

The book value of this Company (a Luxembourg-based vehicle used by the Tiscali Group to issue bonds) has been indirectly adjusted by EUR 18.7 million, shown under Reserve for risks and charges, accounted or to remedy the negative shareholders' equity position, which is currently being resolved.

Tiscali Motoring S.r.l. (EUR 0.5 million)

Although this Company is being wound up, it maintains its value because its auto website is now operational.

Tiscali Telecomunicaciones S.A. (EUR 0.1 million)

The value of this Company, after write-downs booked in previous years, relates to one of the Group's ISPs in Spain. Although the shareholders' equity for the Company is negative, the amount recorded is broadly supported by the independent consultant's report on the assets owned in the countries in which the Group is present.

World Online International N.V. (EUR 1,396 million)

This is a sub-holding Company based in the Netherlands, which controls Tiscali Group companies operating in several countries, including the UK, the Netherlands, Denmark and South Africa.

The book value is given after write-downs following permanent losses of value of EUR 413.4 million booked in 2001, and the restatement of EUR 15 million relating to an amount previously included in provisions for risks and future liabilities. As of 31 December, no other changes have taken place, and no reasons for further write-downs have arisen, taking into account the trend in results recorded in recent financial years, and in particular, those set out in the Group's business plan for the countries in which legal entities are controlled by World Online International N.V., which is a directly-owned subsidiary of Tiscali S.p.A..

The value of the holding includes goodwill relating to several indirectly-owned subsidiaries, and was confirmed by the independent consultancy report.

Andaledda S.p.A. (EUR 0.1 million)

This Company is not operating at present, and is recorded at book value.

GST Gilla Servizi Telecomunicaz.

GST provides call centre services. Its valuation reflects the loss of value following a sustained period of losses. The provisions for risks and future liabilities contain an amount to cover the Company's accumulated losses.

Tiscali Czech Republic Sro

This holding relates to a Czech Company that is not operating at present.

Tiscali Internet Ltd

In March 2003 Tiscali S.p.A. acquired the dial-up user base of the Company Dell Product (Europe) BV, from which it also acquired the entire share capital of Tiscali Internet Ltd, for a total of EUR 598,240 paid for in newly-issued Tiscali shares (152,380 shares). At the end of the year, the Company's share capital was sold to indirectly-owned subsidiary Tiscali UK, at its book value.

Tiscali ITS S.r.l. (EUR 1.6 million)

As part of the plan to spin off the Italian assets and corporate services into other Group Companies, Tiscali ITS is to receive the Group's IT assets.

To provide a more complete picture, the table below shows shareholder's equity figures for subsidiaries as they appeared in the 2003 accounts drawn up for the purpose of compiling the consolidated accounts of the Tiscali Group, which are in the course of being approved by the relevant corporate bodies in each country. The table also shows the percentage owned and the book value of the holdings in 2003 accounts.

OTHER INFORMATION

Holdings in subsidiaries

COMPANY NAME	HEAD OFFICE	SHARE CAPITAL	SHAREHOLDERS' EQUITY	NET PROFIT (LOSS)	% HELD	BALANCE SHEET
Best Engineering S.p.A.	Turin	843	782	(41)	60%	1,290
Energy Byte S.r.l.	Milan	129	36	(165)	100%	-
Excite Italia B.V.	Amsterdam	76	2,868	852	100%	12,770
Ideare S.p.A.	Pisa	520	2,663	(402)	60%	2,998
Informedia S.r.l.	Rome	52	77	(44)	(***) 95%	-
Liberty Surf Group Sa	Paris	(*) 75,280	(*) 89,207	(*) (42,896)	94.50%	518,929
Tiscali Business Services Spa (Ex Nextra)	Reno (Bo)	100	248	(1,322)	100%	1,252
Quinary S.p.A.	Milan	1,280	(786)	(2,958)	85%	1,096
STS S.r.l.	Rome	100	278	(266)	(****) 20%	1,291
Tiscali Datacomm AG	Basel	3,091	2,674	(7,194)	83.39%	17,012
Tiscali Deutschland GmbH	Hamburg	(*) 74,471	(*) (141,275)	(*) 6,082	100%	36,387
Tiscali Finance S.A.	Brussels	125	(17,722)	1,665	100%	125
Tiscali Motoring S.r.l.	Cagliari	100	64	(36)	60%	500
Tiscali Telecomunicaciones S.A.	Madrid	2,100	(12,925)	(8,253)	99.99%	125
World Online International N.V.	Maarsen (NL)	(*) (115,519)	(*) (97,006)	(*) (366,082)	99.50%	1,396,270
Andaledda S.p.A.	Cagliari	103	97	(6)	100%	103
Connect Software Inc.	S.Francisco	(**) 48	(**) (43)	(**) (2)	100%	1,027
Gilla Servizi Telecomunicaz. S.r.l.	Cagliari	50	(774)	(824)	90%	45
Tiscali Czech Republic s.r.o.	Prague	505	(43)	(23)	100%	39
Tiscali I.T.S. S.r.l.	Cagliari	780	1,525	(8)	100%	1,593
						1,992,852

*(*) Data pertaining to subsidiaries' consolidated companies*
*(*) Figures from the accounts at 31.12.2002*
*(***) The remaining 5% is held by Andaledda S.p.A.*
*(****) Andaledda S.p.A. and Gilla S.p.A. each own a 15% stake*

Holdings in affiliated companies

COMPANY NAME	HEAD OFFICE	SHARE CAPITAL	SHAREHOLDERS' EQUITY	NET PROFIT (LOSS)	% HELD	BALANCE SHEET
Ariete Telemedia S.r.l.	Milan	52	15	(31)	40%	-
FreeTravel S.p.A. (being wound up)	Milan	500	(142)	(12)	50%	-
Stud Soc Consortile	Cagliari	(*) 45	(*) 43	(*) (5)	33.33%	15
Netchemya	Milan	(*) 22,750	(*) 20,032	(*) (2,632)	20%	-
Janna Scpa	Cagliari	200	155	(43)	33.33%	34
						49

*(*) Figures from the accounts at 31.12.2002*

Dealings with Group companies are set out in the section of these notes on intracompany receivables and payables.

EUR/000	31.12.2003	31.12.2002	CHANGE
Receivables from other companies	8,038	-	8,038

Receivables from other Companies after one year relate to Eurolight Associates Ltd, which bought Tiscali's stake in Czech Company CD Telekomunikace Sro. At the time of the acquisition, the stake was transferred with the pre-existing debt owed by CD Telekomunikace to Tiscali S.p.A.. This debt originally totalled EUR 25.3 million, but was written down by EUR 17.3 million to adjust it to its estimated realisable value. The residual value of EUR 8 million was determined at the end of the year, based on the amount expected to be recovered via local Group subsidiary Tiscali Telekomunikace Seo. The estimated realisable value takes into account the current market conditions for fibre optic technology in the Czech Republic, which led to the view that the nominal value of the debt was unlikely to be recovered.

C) Current assets and liabilities

I - Inventories

Inventories consist largely of goods for resale and consumables.

The table below shows the changes in inventories.

EUR/000	31.12.2003	31.12.2002	CHANGE
Consumables and telephone cards	218	346	(128)
Goods for resale	723	862	(139)
Contract work in progress	1,431	-	1,431
	2,372	**1,208**	**1,164**

"Goods for resale" mainly consist of satellite equipment for the new Tiscali Sat service (around EUR 0.3m), and ADSL modems.

"Contract work in progress" largely includes work on the Marte (computerisation of Sardinia's school system) and SIL (creation and management of an employment database) projects, both awarded by the region of Sardinia. At the end of the year, the Group's project portfolio was worth a total of EUR 7.5 million.

II – Receivables

The table below shows figures for receivables.

EUR/000	31.12.2003	31.12.2002	CHANGE
Receivables	61,665	72,647	(10,982)
Write-down provisions	(12,566)	(26,064)	13,498
	49,099	**46,583**	**2,516**

In 2003, EUR 18.7 million of the write-down provisions was used, while provisions of EUR 5.2 million were added.

Receivabies from subsidiaries and affiliated companies

Receivables from Group Companies are detailed below.

	FINANCIAL RECEIVABLES DUE WITHIN 1 YEAR	DUE AFTER 1 YEAR	TRADE RECEIVABLES DUE WITHIN 1 YEAR	DUE AFTER 1 YEAR	TOTAL
GROUP COMPANIES:					
Best Engineering S.p.A.	1,953	-	31	-	1,984
Energy Byte S.r.l	396	-	62	-	458
Excite Italia BV	1,639	-	611	-	2,250
Ideare S.p.A.	-	-	87	-	87
Informedia S.r.l.	165	-	238	-	403
Liberty Surf Group S.A.	-	-	41	-	41
Quinary S.p.A.	426	-	114	-	540
STS S.r.l.	-	-	4	-	4
Tiscali Datacomm AG	-	-	1,054	-	1,054
Tiscali Deutschland GmbH	-	-	3,668	-	3,668
Tiscali GmbH	-	17,328	-	-	17,328
Tiscali Finance S.A.	-	-	187	-	187
Tiscali International N.V.	-	-	283	-	283
Nacamar Ltd	-	-	3	-	3
Nacamar Luxemburg Sarl	-	-	1	-	1
Tiscali AS (Norway)	-	-	84	-	84
Tiscali Business GmbH	-	-	7,633	-	7,633
Tiscali A/S (Denmark)	-	-	2,241	-	2,241
Tiscali AB (Sweden)	55	-	1,285	-	1,340
Tiscali B.V.	-	-	3,958	-	3,958
Tiscali Espana SL	10,226	-	3,940	-	14,166
Tiscali Oesterreich GmbH	-	-	550	-	550
Tiscali PTY Ltd	-	-	1,113	-	1,113
Tiscali S.A./N.V.	-	-	3,376	-	3,376
Tiscali Telekomunikace Sro	-	-	857	-	857
Tiscali UK Ltd	8,740	-	9,651	-	18,391
Tiscali Luxemburg	-	-	8	-	8
Tiscali International Network S.A.	40	-	237	-	277
Tiscali International Network BV	-	-	73	-	73
Tiscali International Network SAU	-	-	37	-	37
Tiscali International Network S.p.A.	66	-	886	-	952
Tiscali Motoring S.r.l.	225	-	3	-	228
Tiscali Telecomunicaciones S.A.	-	-	1,394	-	1,394
Andaledda S.p.A.	974	-	-	-	974
Connect Software Inc.	54	-	-	-	54
Gilla Servizi Telecomunicazioni S.r.l.	2,596	-	416	-	3,012
Tiscali OY	7	-	-	-	7
Tiscali I.T.S. S.r.l	3,321	-	-	-	3,321
Tiscali Business Service S.p.A.	517	-	222	-	739
Tiscali Integration N.V.	9,500	-	-	-	9,500
WOL Sro	299	-	-	-	299
	41,199	**17,328**	**44,348**	**-**	**102,875**

Receivables from subsidiaries posted as long-term receivables are to be used by the parent Company to boost the shareholders' equity of certain subsidiaries, by converting them into capital increases and/or covering their losses. In particular, this relates to receivables of EUR 17.3 million from Tiscali GmbH, which is indirectly controlled by Tiscali S.p.A. via Tiscali Deutschland GmbH.

Financial receivables of EUR 80 million from Tiscali International BV, recorded as of 31 December 2002 in respect of the subsidiary Line One, related to the acquisition of Springboard Internet Services Ltd in 2001, and were transferred to Tiscali International BV as part of the process to rationalise intercompany dealings.

Financial receivables of EUR 9.5 million from Wanadoo Belgium N.V. relate to the acquisition of the Company in 2003 via Belgian Company Tiscali NV, which is indirectly controlled by Tiscali S.p.A.. The sale by Wanadoo International S.A. of Wanadoo Belgium to Tiscali generated a financial receivable in respect of Wanadoo Belgium, to be exchanged for newly-issued Tiscali shares. The receivable was transferred to Tiscali International N.V. after the end of the year.

Of the financial receivables of EUR 10.2 million from Tiscali España SL, EUR 9.9 million relates to the acquisition by the Spanish subsidiary of the Internet and fixed-line business of the Vodafone Group in Spain, which trades under the name of Airtelnet. After the acquisition, Tiscali España took on the EUR 9.9 million debt in respect of the vendor Airtel Movil S.A. and in January 2003, Airtel Movil received a contribution in kind in the form of shares in Tiscali S.p.A..

Trade receivables relate to the billing of Group companies for IT, and housing and hosting services carried out by the holding Company, as well as to the passing on of costs incurred by Tiscali S.p.A. on behalf of Group companies.

Other receivables

Other receivables break down as follows:

EUR/000	BALANCE 31.12.2003	TRADE RECEIVABLES BALANCE 31.12.2002
receivable within one year		
withholding taxes	458	436
receivables from the Treasury for contributions under Law 388	-	572
receivables from employees	134	15
receivables from others	28	33
tax credits on dividends	4,688	9,019
VAT refunds receivable	15,497	13,834
VAT receivables	14,728	6,751
other receivables	7,715	2,651
	43,248	**33,311**
receivable after one year		
deposits	328	293
	328	**293**
	43,576	**33,604**

The item "tax credits on dividends" includes tax credits resulting from the payment of dividends the previous year by ITS International Technology Services S.r.l., which was acquired that year. The reduction compared to 2002 is due to the transfer of part of the receivable to subsidiaries.

"VAT refunds receivable" include: at 31 December 2003, the amount of EUR 15.5 million relating to refunds requested in 2002 (EUR 13.8 million) and 2003 (EUR 1.2 million). The remaining EUR 0.5 million relates to interest on VAT receivables. The Company received the sum of EUR 8.8 million in January 2004, and in early 2004 applied for a further refund of EUR 8.2 million.

The table below shows the amounts for each balance sheet item pertaining to receivables, by the period in which they fall due.

EUR/000	31.12.2003 RECEIVABLES FALLING DUE			31.12.2002 RECEIVABLES FALLING DUE		
CURRENT ASSETS	WITHIN 1 YEAR	BETWEEN 1 AND 5 YEARS	AFTER 5 YEARS	WITHIN 1 YEAR	BETWEEN 1 AND 5 YEARS	AFTER 5 YEARS
Receivables:						
from customers	49,099	-	-	46,583	-	-
from subsidiaries	85,547	17,328	-	64,228	97,328	-
from others	43,248	328	-	33,311	293	-
	177,894	**17,656**	**-**	**144,122**	**97,621**	**-**

IV – Cash and cash equivalents

"Cash and cash equivalents" break down as follows:

EUR/000	31.12.2003	31.12.2002	CHANGE
Bank and post office deposits	3,599	2,073	1,526
Cash and other negotiable instruments	119	6	113
	3,718	**2,079**	**1,639**

D) Accrued income and deferred charges

A summary of accrued income and deferred charges is set out below.

EUR/000	31.12.2003	31.12.2002	CHANGE
Accrued income:			
Accrued interest	2,325	184	2,141
	2,325	**184**	**2,141**
Deferred charges:			
Leasing payments	229	338	(109)
Rentals	48	43	5
Pre-paid expenses	263	312	(49)
Other deferred charges	2,529	987	1,542
	3,069	**1,680**	**1,389**
Accrued income and deferred charges	**5,394**	**1,864**	**3,530**

"Accrued income" includes EUR 2.3 million relating to revenues due on ADSL contracts during the year, but not yet billed.

"Other deferred charges" include costs already incurred but deferred to subsequent periods in accordance with the matching principle, in this case, EUR 1.7 million relating to ADSL installation fees and modem/equipment charges owed by customers. Such charges are deferred over a period of three years (see accounting policies).

The balance of deferred charges (EUR 0.8 million) relates to insurance, advertising costs, portal content and miscellaneous services.

Liabilities

EUR/000

A) Shareholders' equity

The table below provides a summary of changes in the shareholders' equity accounts for the period.

	BALANCE 31.12.2002	ALLOCATION OF NET PROFIT	DIVIDENDS	OTHER CHANGES	NET PROFIT FOR THE YEAR	BALANCE 31.12.2003
Share capital	180,867	-	-	3,593	-	184,460
Share premium reserve	1,632,896	(152,297)	-	26,086	-	1,506,686
Retained earnings (losses carried forward)	-	-	-	-	-	-
Profit (loss) for the year	(152,297)	152,297	-	-	(114,535)	(114,535)
	1,661,466	**-**	**-**	**29,679**	**(114,535)**	**1,576,612**

At 31.12.03, the Company's share capital was EUR 184,460,213.50 consisting of 368,920,427 ordinary shares with a nominal value of EUR 0.50 each.

At the extraordinary general meeting held on 29.04.03, shareholders voted to cover losses relating to the 2002 financial year by using EUR 152,296,833.87 from the share premium reserve.

Other capital increases and increases in the share premium reserve that occurred during the year came about as a result of takeover operations by means of share transfers. During the course of the financial year, a total of 7,186,292 shares were issued, with a nominal value of EUR 3,593,147.

Increases in the share premium reserve totalled EUR 26,086,414.

Changes in the share capital are listed below, next to the transaction to which they refer:

	ISSUE DATE	NO. OF SHARES ISSUED	SHARE CAPITAL INCREASE EURO	SHARE PREMIUM RESERVE
Shares issued to Tryboard Holding S.A. in exchange for Quinary S.p.A.	16/12/2002	789,110	394,555	3,605,444
Shares issued to Messrs Cavalletto, Decio, Gilardoni and Massironi of Quinary S.p.A.	12/12/2002	233,211	116,606	1,065,541
Exercise of warrants - Connect Software - tranche III	09/04/2003	74,350	37,175	-
Shares issued for the contribution in kind of a credit to Wanadoo International S.A.	13/06/2003	2,290,924	1,145,462	8,354,538
Shares issued for the contribution in kind of a credit to VTL Inc	20/05/2003	840,228	420,114	2,829,886
Shares issued to Dell Product (Europe) BV in exchange for Tiscali Internet Ltd	14/05/2003	152,380	76,190	522,050
Shares issued for the contribution in kind of a credit to Airtel Movil S.A.	22/07/2003	2,162,139	1,081,070	8,778,930
Shares issued to Telenor Business Solution Holding AS in exchange for Nextra S.p.A.	18/07/2003	643,950	321,975	930,025
		7,186,292	**3,593,147**	**26,086,414**

SHARE CAPITAL COMPOSITION (No. of shares - 000)

NOMINAL VALUE OF EACH SHARE EUR 0.50 CATEGORY	31.12.2002	INCREASES	(DECREASES)	31.12.2003
Ordinary shares	361,734,135	7,186,292	-	368,920,427
Total	**361,734,135**	**7,186,292**	**-**	**368,920,427**

B) Reserves for risks and charges

	BALANCE 31.12.2002	PROVISIONS	(AMOUNTS USED)	OTHER CHANGES	BALANCE 31.12.2003
Write-down provisions (equity investments)	54,319	13,640	(13,742)	(31,843)	22,374
Other risk provisions	383	761	(81)	-	1,063
	54,702	**14,401**	**(13,823)**	**(31,843)**	**23,437**

Provisions made to the item “write-down provisions (equity investments)”, which was previously called “provisions for risks and future liabilities, relate to write-downs of equity investments to their book value on the balance sheet.

Amount used totalled EUR 13.7 million, as the risks relating to previous years were deemed to no longer apply (the funds were recorded on the profit and loss account as extraordinary income).

Amounts used and recorded under “other changes” refer to the restatement of a proportion of the provisions used to reduce the value of equity investments.

The remaining provisions as of 31 December 2003 relate to the holdings in Quinary S.p.A. (EUR 2.2 million), Tiscali Finance S.A. (EUR 18.7 million), Gilla Servizi Telecomunicaz. S.r.l. (EUR 0.8 million) and other minor investments (EUR 0.7 million).

C) Staff severance indemnity reserve

	BALANCE 31.12.2002	PROVISIONS	(AMOUNTS USED)	OTHER CHANGES	BALANCE 31.12.2003
Manual workers	16	9	-	-	25
Office staff	2,570	1,365	(186)	-	3,749
Senior managers	366	153	(60)	-	459
	2,952	**1,527**	**(246)**	**-**	**4,233**

This provision corresponds to all amounts due to employees under current laws.

D) Payables

	31.12.2003	31.12.2002	CHANGE
to banks	63,766	44,119	19,647
to other lenders	26	1,919	(1,893)
to suppliers	111,892	100,692	11,200
to subsidiaries and affiliated companies	539,398	554,160	(14,762)
to tax authorities	1,917	889	1,028
to social security agencies	2,141	919	1,222
other payables	8,266	7,597	669
	727,406	**710,295**	**17,111**

"Payables to banks" relate to EUR 33.5 million in respect of a long-term financing agreement with Banca CIS (Banca Intesa Group) to be repaid over 10 years at the six-month Euribor rate plus a spread of 1.2 percentage points. The remaining EUR 30.2 million relates to a short-term credit line of EUR 17.2 million and overdrafts.

The increase recorded under "payables to banks" mainly derives from the disbursement of a further tranche of the loan granted by Banca CIS for the construction of the new headquarters and the purchase of the necessary land.

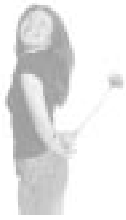
The total amount of the loan is EUR 35m. During the year, four tranches totalling EUR 23.1m were disbursed in respect of the stages of work completed. The loan term is 10 years, in addition to an initial 30-month period in which interest only is paid (although this may be reduced at the request of the borrower), and the land purchased is pledged as a guarantee.

The increase in "payables to suppliers" is attributable to the substantial capital expenditures made in the new headquarters, and in plant and technical equipment purchased during the year.

PAYABLES TO SUBSIDIARIES AND AFFILIATED COMPANIES

Intracompany payables break down as follows:

	FINANCIAL PAYABLES		TRADE PAYABLES		
	DUE WITHIN 1 YEAR	DUE AFTER 1 YEAR	DUE WITHIN 1 YEAR	DUE AFTER 1 YEAR	TOTAL
GROUP COMPANIES					
Best Engineering S.p.A.	-	-	138	-	138
Energy Byte S.r.l	-	-	93	-	93
Excite Italia BV	-	-	4,490	-	4,490
Ideare S.p.A.	978	-	898	-	1,876
Informedia S.p.A.	-	-	64	-	64
Liberty Surf Group S.A.	-	-	113	-	113
Quinary S.p.A.	-	-	96	-	96
Tiscali Datacomm AG	1,358	-	107	-	1,465
Tiscali Deutschland GmbH	-	-	638	-	638
Tiscali Finance S.A.	3,058	-	-	-	3,058
Tiscali International BV	499,538	-	9,395	-	508,933
Nacamar Ltd	-	-	31	-	31
Tiscali Business GmbH	-	-	381	-	381
Tiscali AS (Norway)	-	-	116	-	116
Tiscali A/S(Denmark)	-	-	1,995	-	1,995
Tiscali AB (Sweden)	-	-	67	-	67
Tiscali B.V.	-	-	358	-	358
Tiscali Espana SL	-	-	203	-	203
Tiscali Oesterreich GmbH	-	-	28	-	28
Tiscali PTY Ltd	-	-	77	-	77
Tiscali N.V.	-	-	197	-	197
Tiscali Telekomunicace Sro	-	-	83	-	83
Tiscali UK Ltd	-	-	6,990	-	6,990
Tiscali Motoring S.r.l.	42	-	267	-	309
Tiscali Media S.A.	-	-	163	-	163
Tiscali Telecomunicaciones S.A.	-	-	290	-	290
Andaledda S.p.A.	58	-	-	-	58
Gilla Servizi Telecomunicazioni S.r.l.	422	-	237	-	659
Surfeu.com AG	416	-	-	-	416
Tiscali I.T.S. S.r.l	1,790	-	-	-	1,790
Tiscali Access S.A.	-	-	29	-	29
Tiscali International Network BV	-	-	595	-	595
Tiscali International Network Spa	278	-	648	-	926
Tiscali Games GmbH	-	-	887	-	887
Tiscali Business Service S.p.A.	1,500	-	98	-	1,598
S.T.S. S.r.l.	-	-	16	-	16
World OnLine SAU	-	-	32	-	32
Freetravel S.p.A.	-	-	140	-	140
	509,438	**-**	**29,960**	**-**	**539,398**



"Payables to Group Companies" mainly relate to Tiscali International BV. This item (EUR 503.1 million) has increased by EUR 80.4 million since 2002, consisting of financial payables transferred by Tiscali Finance S.A. to Tiscali International BV (EUR 26.6 million); EUR 47.6 million deriving from loans made by Tiscali International BV to Tiscali S.p.A.; and EUR 6.2 million from Group restructuring operations including the transfer and acquisition of receivables/payables among subsidiaries. The increase was fully offset by decreases following the transfer of receivables (owed to the parent Company by companies owned directly or indirectly by Tiscali International BV) to Tiscali International BV.

DPAYABLES TO TAX AUTHORITIES

	31.12.2003	31.12.2002	CHANGE
Payables to the Treasury for advance withholding tax	1,917	848	1,069
Other taxes payable	-	41	(41)
	1,917	**889**	**1,028**

"Payables to the Treasury" relate to advance withholding tax in respect of personal income tax (IRPEF).

PAYABLES TO SOCIAL SECURITY AGENCIES

	31.12.2003	31.12.2002	CHANGE
Payables to the INPS (national social security organisation)	1,890	607	1,283
Payables to other social security organisations	251	312	(61)
	2,141	**919**	**1,222**

"Payables to social security organisations" mainly relate to employer contributions due and the related taxes deducted at source on behalf of employees and self-employed contractors.

OTHER PAYABLES

	31.12.2003	31.12.2002	CHANGE
Payables to directors (emoluments)	517	585	(68)
Payables to employees (accrued holiday pay)	5,021	1,744	3,277
Other payables	2,728	5,268	(2,540)
	8,266	**7,597**	**669**

"Payables to directors" include emoluments.

"Payables to employees" comprise EUR 2.4 million for wages accrued in 2003 but paid in 2004, and EUR 2.5 million for holiday due but not taken.

The "other payables" item includes payables of EUR 2.5m in respect of the acquisition of EU.net AG, Tiscali Internet Ltd and Home.se AB during the year, which are to be paid for in newly-issued shares in Tiscali S.p.A.. The necessary shares were issued in the first few months of 2004.

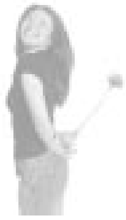
E) Accrued liabilities and deferred income

Accrued liabilities and deferred income break down as follows:

	31.12.2003	31.12.2002	CHANGE
Accrued liabilities:			
Accrued holiday bonuses	908	724	184
Other	87	587	(500)
	995	**1,311**	**(316)**
Deferred income:			
Pre-paid Internet services	1,118	3,235	(2,117)
Pre-paid voice services	2,311	1,988	323
Deferred income for contributions under law 388, art. 8	-	572	(572)
Other	1,990	869	1,121
	5,419	**6,664**	**(1,245)**
	6,414	**7,975**	**(1,561)**

“Accrued liabilities” include provisions of around EUR 0.9 million made in respect of extra-month’s wages accrued.

“Deferred income” relates to revenues from Internet services pertaining to subsequent years (EUR 1.1 million), and residual payables (EUR 2.3 million) in respect of sales of pre-paid telephone cards. The remaining EUR 1.9 million recorded under “other” comprises EUR 0.8 million relating to ADSL service revenues pertaining to subsequent years, EUR 0.6 million for rental charges owing to Telecom Italia, EUR 0.6 million in contributions paid by broadband users collected by the government and miscellaneous revenues of EUR 0.2 million.



Memorandum accounts

EUR/000	31.12.2003	31.12.2002	CHANGE
GUARANTEES GIVEN			
Sureties	565,977	254,830	311,147
	565,977	**254,830**	**311,147**
OTHER MEMORANDUM ACCOUNTS			
Leasing payments falling due	28,292	42,055	(13,763)
Warrants	-	110	(110)
Guarantees	15,879	10,877	5,002
	44,171	**53,042**	**(8,871)**
GUARANTEES RECEIVED			
Sureties	1,826	2,448	(622)
	1,826	**2,448**	**(622)**
	611,974	**310,320**	**301,654**

Sureties issued to third parties relate to EUR 540m in guarantees given in relation to the bond issued on the Euromarket by subsidiary Tiscali Finance S.A., of which the residual balance as of 31 December was EUR 539.8 million. For information on the redemption of bonds maturing in July 2004 and July 2005, and the related covenants, please refer to the Report on operations.

ISSUER	NOMINAL VALUE OF EACH SHARE	YIELD	MATURITY	GUARANTOR
Tiscali Finance S.A.	(*)80,300	6.375%	July 2004	Tiscali S.p.A.
Tiscali Finance S.A.	250,000	Euribor +3.25%	July 2005	Tiscali S.p.A.
Tiscali Finance S.A.	209,500	4.25%	September 2006	Tiscali S.p.A.
	539.800			

*(*) Original issue value: EUR 150 million. Amount remaining following the buyback operation carried out in December 2003*

The reduction in the memorandum accounts is mainly due to a decrease in leasing payments falling due. The payment amounts and years to which they relate are shown below.

YEAR	LEASING PAYMENTS
2004	6,093
2005	7,121
2006	10,163
2007	4,914
	28,292

Profit and loss account

A) Revenues from sales and services

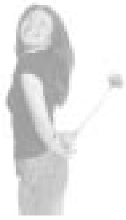
BREAKDOWN BY BUSINESS AREA: EUR/000	31.12.2003	31.12.2002	CHANGE
Access services	99,858	69,328	30,530
Voice services	29,464	20,589	8,875
Portal services	14,095	20,070	(5,975)
Business services	8,406	6,471	1,935
Other services	23,062	15,536	7,526
	174,885	**131,994**	**42,8911**

Total revenues increased by 33.7% versus the previous year. This was due to the rise in revenues from access services (+44%), business services (+29.9 %) and voice services (+43.1%).

The advance in access revenues was chiefly attributable to ASDL (+ EUR 9m). In addition, dial-up revenues increased (+ EUR 18.7 million) as users migrated to a single national number (702), which delivers higher revenues than the fees for traffic generated by Tiscali subscribers on third-party lines. However, online minutes fell slightly, from 9.1 billion in 2002 to 8.6 billion in 2003. In the B2B sector, revenues were mainly generated through housing and hosting services, connection services and the sale of domain names and dedicated lines.

Practically all revenues were recorded in EU countries. Transactions between Group companies produced a sum of EUR 23 million, as shown in more detail below.

	AMOUNT
Best Engineering S.p.A.	23
Energy Byte S.r.l	4
Excite Italia BV	814
Gilla Servizi telecomunicazioni S.r.l. (Ex Gilla S.p.A)	103
Ideare S.p.A.	17
Liberty Surf Group	82
Tiscali Luxembourg Sarl	8
Quinari S.p.A.	190
STS S.r.l	13
Tiscali A/S (Denmark)	954
Tiscali AB(Sweden)	831
Tiscali AS (Norway)	609
Tiscali B.V.	2,750
Tiscali Business GmbH	3,577
Tiscali Business Services S.p.A.	222
Tiscali Datacomm AG	940
Tiscali Deutshland	248
Tiscali Espana SLU	1,841
Tiscali Finance S.A.	188
Tiscali International BV	66
Tiscali International Network BV	86
Tiscali International Network S.A.	201
Tiscali International Network SAU	33
Tiscali International Network S.p.A.	384
Tiscali Oesterreich GmbH	549
Tiscali PTY Ltd	700
Tiscali S.A. / N.V.	1,156
Tiscali Telecomunicaciones S.A.	216
Tiscali Telekomunicace Sro	339
Tiscali UK Ltd	5,876
	23,020



Intragroup revenues mainly derive from the billing of services provided centrally by the holding Company, and to a lesser extent, to the billing of costs incurred by the parent Company on behalf of other Group companies.

Revenues from centralised services provided to Group companies are listed under item A1 on the profit and loss account, as they consist of co-ordination and management activities carried out by the parent Company. These activities cover accounts management, billing, data archiving and management, treasury management, provisioning, mailing, streaming and antivirus services, general management, finance, legal and human resources functions, strategic marketing, distribution, purchasing and website content management.

INCREASES IN ASSETS FOR WORK IN PROGRESS (INTERNAL)

EUR/000	31.12.2003	31.12.2002	CHANGE
Personnel costs	1,174	-	1,174
	1,174	**-**	**1,174**

The EUR 1.2 million change is attributable to the capitalisation of internal costs involved in the production of management software to be used within the Group.

OTHER INCOME

EUR/000	31.12.2003	31.12.2002	CHANGE
Other income	2,874	8,893	(6,019)

"Other income" includes contributions received in respect of incentives provided under art. 8 of Law 388 on investment (EUR 0.2 million) and under art. 7 of Law 388 on job creation (EUR 2.1 million). It also includes EUR 0.6 million from the communications ministry in respect of contributions made by broadband users.

B) Production costs

PURCHASES OF RAW MATERIALS, SUPPLIES, CONSUMABLES AND OTHER GOODS

EUR/000	31.12.2003	31.12.2002	CHANGE
Purchase of goods	2,843	1,359	1,484
Purchase of consumables	447	252	195
Purchase of advertising and promotional materials	433	456	(23)
Other purchases	-	1	(1)
	3,723	**2,068**	**1,655**

The increase in the item "purchase of goods" reflects the cost of purchasing ADSL modems as the broadband service took off in 2003. It also includes the cost of purchasing the necessary equipment for the projects carried out for the region of Sardinia (EUR 1.1 million).

SERVICES COSTS

EUR/000	31.12.2003	31.12.2002	CHANGE
Rental of telephone lines and ports	32,587	23,250	9,338
Traffic acquisition costs	39,477	13,588	25,889
Advertising and promotional expenses	14.686	42,017	(27,331)
Maintenance costs	9,208	7,789	1,419
Advisory services	5,951	6,396	(445)
Portal management costs	5,173	5,579	(406)
Selling costs	3,648	1,986	1,662
Utilities	1,823	1,329	494
Bank and postal charges	754	595	159
Transport costs	411	74	337
Travel costs	2,210	1,187	1,023
Other services	13,161	16,274	(3,113)
	129,089	**120,064**	**9,025**

“Total services costs” increased by 7.5% on the previous year.

The most significant line items are as follows.

“Rental of telephone lines and ports” went up by 40% as the Company took on more production capacity, particularly as regards use of ports and connectivity.

“Traffic acquisition costs” rose to EUR 39.5 million and relate to voice services, international and mobile call termination costs and variable interconnection costs. The increase was due to the development of Internet services using a single national number (702) and a greater proportion of wholesale services.

“Advertising and promotional costs” fell by EUR 27.3 million. This item includes the costs of campaigns in Italy and the rest of Europe. The reduction versus the previous year is partly attributable to the decision to capitalise ADSL launch costs (EUR 3.5 million).

“Maintenance costs” rose to EUR 9 million, mainly due to the increase in Company investments.

“Selling costs” increased substantially after an aggressive marketing policy was adopted in the telephony and ADSL sectors.

The “other services” item comprised EUR 3.5 million for costs incurred on behalf of other Group companies (and passed on to them), EUR 1.5 million for general services, EUR 1.7 million for miscellaneous expenses relating to sales and invoicing and EUR 0.6 million for emoluments to members of corporate bodies.

INTRACOMPANY PRODUCTION COSTS

Intracompany production costs break down as follows:

EUR/000	AMOUNT
Best Engineering S.p.A.	261
Energy Byte S.r.l	139
Excite Italia BV	2,902
Gilla Servizi Telecomunicazioni S.r.l. (ex Gilla S.p.A.)	1,583
Liberty Surf Group S.A.	485
QuinaryS.p.A.	96
STS S.r.l.	192
Tiscali A/S (Denmark)	1
Tiscali AB (Sweden)	56
Tiscali AS (Norway)	17
Tiscali B.V.	120
Tiscali Business Service	69
Tiscali Datacomm AG	20
Tiscali Deutschland GmbH	585
Tiscali Espana SLU	45
Tiscali International Network B.V.	1,081
Tiscali International Network S.p.A.	552
Tiscali International N V	244
Tiscali Motoring S.r.l.	448
Tiscali Oesterreich GmbH	3
Tiscali PTY Ltd	1
Tiscali S.A./N.V.	51
Tiscali Telekomunicace Sro	29
Tiscali UK Ltd	1,372
	10,352

Costs invoiced by Gilla Servizi Telecomunicazioni S.r.l. mainly refer to the transfer of expenses in respect of services and personnel working in the offices of the parent Company.

Costs listed under Tiscali International Network BV relate to the international backbone.

Costs listed for Excite Italia BV, LibertySurf Group S.A. and Tiscali Deutschland GmbH mainly relate to their share of publicity campaigns run centrally in Italy. The costs invoiced by Tiscali Motoring cover content updates for its auto website.

Tiscali UK Ltd outsources its portal management.

COST OF USING THIRD-PARTY ASSETS

	31.12.2003	31.12.2002	CHANGE
Financial and operating leasing fees	17,522	17,636	(114)
Rentals	2,622	2,157	465
Other	706	644	62
	20,850	**20,437**	**41,3**

The Company has existing leasing contracts that are included under non-current assets. The charges relating to these contracts that fall due each year are debited to the profit and loss account. If the leasing charges had been booked according to IAS 17, whereby the capital debt is recorded under non-current assets, and depreciation is charged to the profit and loss account (thus recording only the interest on the profit and loss account), the value of net non-current assets would have increased by around EUR 43.8 million and shareholders' equity would have increased by approximately EUR 2.4 million. IAS 17 was adopted in the preparation of the consolidated accounts (but not for the parent Company accounts).

PERSONNEL COSTS

EUR/000	31.12.2003	31.12.2002	CHANGE
Wages and salaries	25,645	21,689	3,956
Social security contributions	5,820	4,208	1,612
Staff severance fund	1,527	1,375	152
Other costs	73	372	(299)
	33,065	**27,644**	**5,421**

The increase in this item versus the previous year reflects the higher headcount, which rose from 755 at 31 December 2002 to 799 a year later. Furthermore, tax benefits received in previous years ended in 2002, and social security contributions increased as a proportion of personnel costs, from 15% in 2002 to 18% in 2003.

OTHER OPERATING EXPENSES

EUR/000	31.12.2003	31.12.2002	CHANGE
Government concessions and telecommunications licences	439	334	105
Taxes other than corporate income tax	112	110	2
Magazines and newspaper subscriptions	17	39	(22)
Other non-extraordinary contingent liabilities	117	3	114
Other minor charges	285	198	87
	970	**684**	**286**

C) Financial income and charges

INCOME FROM EQUITY INVESTMENTS

Income recorded during the year relates to interest on loans to Group companies.

DETAILS OF OTHER FINANCIAL INCOME

Other financial income breaks down as follows

EUR/000	31.12.2003	31.12.2002	CHANGE
from securities listed under current assets other than equity investments			
interest on other securities	-	222	(222)
	-	**222**	**(222)**
income other than the above:			
from third parties			
interest receivable from banks	20	41	(21)
interest receivable on VAT refunds	291	154	137
interest receivable on other short-term loans	35	1	34
exchange rate gains	178	195	(17)
	524	**391**	**133**
	524	**613**	**(89)**

INTEREST AND OTHER FINANCIAL CHARGES

EUR/000	31.12.2003	31.12.2002	CHANGE
payable to subsidiaries			
interest	106	753	(647)

The decrease is attributable to non-interest bearing financing agreements.

OFINANCIAL CHARGES PAYABLE TO THIRD PARTIES

EUR/000	31.12.2003	31.12.2002	CHANGE
Financial charges on:			
overdrafts	1,757	1,391	366
medium-/long-term bank loans	283	201	82
amounts due to other lenders	59	96	(37)
payables to suppliers			
other payables	611	140	471
exchange rate losses	6	84	(78)
other	34	146	(112)
	2.750	**2.058**	**692**

This item mainly comprises interest on bank overdrafts.

Interest on loans was capitalised as additional charges on investments when the new headquarters became operational (September 2003).

D) Revaluations of investments

This item includes write-downs of equity investments (please see sections on the relevant items).

E) Extraordinary income and charges

EXTRAORDINARY INCOME

EUR/000	31.12.2003	31.12.2002	CHANGE
Extraordinary income:			
Contingent assets and non-existent liabilities	20,626	979	19,647
	20,626	**979**	**19,647**

The item “contingent assets” includes use of risk provisions earmarked in previous years to cover eventualities that did not arise and so were surplus to requirements (EUR 13.7 million); revenues relating to previous years (EUR 0.4 million) and the cancellation of costs pertaining to previous years (EUR 1.4 million).

EXTRAORDINARY CHARGES

DESCRIPTION	31.12.2003	31.12.2002	CHANGE
Extraordinary charges:			
Contingent liabilities and non-existent assets	6,583	8,136	(1,553)
Other extraordinary charges	10,271	10,312	(41)
Capital losses on disposals of assets	-	1,553	(1,553)
Write-downs of equity investments	604	-	604
	17,458	**20,001**	**(2,543)**

"Contingent liabilities" mainly include minor cost items pertaining to previous years (EUR 3.5 million) and a write-down relating to improvements made to third-party assets at the Company's previous premises (EUR 1.4 million), which were sold during the year following the completion of the new headquarters.

Extraordinary charges include EUR 2.3 million in costs billed by Telecom Italia in relation to settlement agreements. A further EUR 7.2 million relates to the recording of lower revenues than expected in 2002, after kickback agreements signed with Telecom Italia were revised in 2003.

Other information

As required by law, the table below shows a breakdown of the number of employees by category.

AVERAGE NUMBER OF EMPLOYEES

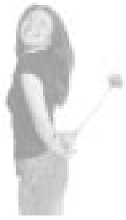
	AVERAGE 2003	31.12.2003	AVERAGE 2002	31.12.2002
Manual workers	8	8	7	7
Office staff	700	742	650	655
Middle managers	64	72	57	59
Senior managers	35	39	30	34
	806	**861**	**744**	**755**

REMUNERATION OF DIRECTORS AND STATUTORY AUDITORS

Pursuant to art. 78 of CONSOB resolution 11971/1991 (the regulation implementing Legislative Decree 58/99), the table below sets out the remuneration for directors and statutory auditors, and the number of shares held by each.

NAME	POSITION	TERM IN OFFICE	EMOLUMENTS	NON-MONETARY BENEFITS	OTHER FORMS OF REMUNERATION
Board of Directors					
Renato Soru	Chairman and CEO (1)	until approval of 2004 results	EUR 300,000.00	Company car	-
Victor Bischoff	Director (2)	until approval of 2004 results	-	-	-
Franco Bernabè	Director (3)	until approval of 2004 results	-	-	-
Gabriel Prêtre	Director (4)	until approval of 2004 results	-	-	-
Tomaso Barbini	Director (5)	until approval of 2004 results	-	-	-
Mario Rosso	Director (5)	until approval of 2004 results	-	-	EUR 85,967 for payment as a salaried employee
Board of Statutory Auditors					
Aldo Pavan	Chairman (4)	until approval of 2005 results	-	-	-
Piero Maccioni	Statutory Auditor (4)	until approval of 2005 results	EUR 63,996.01	-	-
Massimo Giaconia	Statutory Auditor (4)	until approval of 2005 results	-	-	-
Andrea Zini	Deputy Auditor (4)	until approval of 2005 results	EUR 95,193.35	-	-
Rita Casu	Deputy Auditor (4)	until approval of 2005 results	EUR 64,369.02	-	-

(1) Chairman from 30 June 1999 and Chief Executive since 21 July 1999, subject to renewal
(2) Appointed on 12 March 2001
(3) Appointed on 30 June 2000
(4) Appointed on 29 April 2003
(5) Appointed on 27 October 2003



RELATED PARTIES TRANSACTIONS

In 2003 certain dealings took place with related parties, defined as Companies in which members of the board of directors own a stake directly or indirectly or companies owned by shareholders in the Group. In particular, IT consultancy services were provided by Kelyan S.p.A., in which Bernabè Franco S.p.A. holds a stake. The cost of these services, which involved a datawarehouse project and installation of IT systems, was EUR 1.3 million. The services were charged at market prices.

Transmission capacity (IRUs) and services, costing a total of EUR 2.8 million, were purchased from Interoute S.p.A. (formerly Eurostrade S.p.A., majority-owned by Group shareholder the Sandoz Foundation). The services (dark fibre and related maintenance) were charged at market prices.

Shardna S.p.A. (controlled by shareholder and chairman Renato Soru) was invoiced for EUR 124,000 for a sub-lease on a Tiscali building in Cagliari. The invoice also passed on costs incurred by the Company.

SHARES HELD BY DIRECTORS AND STATUTORY AUDITORS

As required by law, including art. 79 of CONSOB regulation 11971/99 implementing Legislative Decree 58/1998, the table below shows the number of shares held by directors and statutory auditors.

NAME	POSITION	NO. OF SHARES HELD AS OF 31.12.2003	NO. OF SHARES PURCHASED	NO. OF SHARES SOLD	NO. OF SHARES HELD AS OF 31.12.2002
Board of Directors					
Renato Soru	Chairman & CEO	108,100,000	-	-	108,100,000
Victor Bischoff	Director	-	-	-	-
Franco Bernabè	Director	-	-	-	-
Gabriel Prêtre	Director	-	-	489	489
Tommaso Barbini	Director	-	-	-	-
Board of Statutory Auditors					
Aldo Pavan	Chairman	-	-	-	-
Piero Maccioni	Statutory Auditor	-	-	-	-
Massimo Giaconia	Statutory Auditor	-	-	-	-
Andrea Zini	Deputy Auditor	2,054	-	-	2,054
Rita Casu	Deputy Auditor	50	-	-	50

STOCK OPTION

As of 31 December 2003, none of the options assigned under the stock option plan (which expired in September 2003) had been exercised. The capital increase approved at the shareholders' meeting held on 12 March 2001 and valid for five years, has therefore not been carried out.

As at the date of this report, no new stock option plans for employees had been put in place.

EVENTS TAKING PLACE AFTER YEAR END

Please refer to the Report on operations.

Restated balance sheet

RESTATED BALANCE SHEET - ASSETS

EUR/000	31.12.2003	%	31.12.2002	%	CHANGE	CHANGE %
CURRENT ASSETS						
Cash and banks	3,718		2,079		1,639	78.84%
Receivables	49,099		46,583		2,516	5.40%
Receivables from customers	85,548		144,229		(58,681)	-40.69%
Other receivables	43,248		33,311		9,937	29.83%
Inventory	2,372		1,208		1,164	96.36%
Accrued income and deferred charges	5,394		1,864		3,530	189.38%
Other current assets	-		3,209		(3,209)	-100.00%
Total current assets	189,379	8.10%	232,483	9.54%	(43,104)	-18.54%
NON-CURRENT ASSETS						
Tangible assets	60,818		34,775		26,043	74.89%
Intangible assets	69,149		77,158		-8,009	-10.38%
Investments and securities	1,993,061		2,075,354		(82,293)	-3.97%
Other non-current assets	25,694		17,621		8,073	45.81%
Total non-current assets	**2,148,722**	**91.90%**	**2,204,908**	**90.46%**	**(56,186)**	**-2.55%**
TOTAL ASSETS	**2,338,101**	**100.00%**	**2,437,391**	**100.00%**	**(99,290)**	**-4.07%**

RESTATED BALANCE SHEET - LIABILITIES

EUR/000	31.12.2003	%	31.12.2002	%	CHANGE	CHANGE %
CURRENT LIABILITIES						
Banks	31,820		31,659		161	0.51%
Other financial payables	-		-		-	-
Payables to suppliers (within 1 year)	103,444		86,172		17,272	20.04%
Payables to Group companies	539,398		554,160		(14,762)	-2.66%
Other creditors	10,433		10,435		-2	-0.02%
Accrued liabilities and deferred income	6,414		7,975		(1,561)	-19.57%
Taxes payable	1,917		889		1,028	115.64%
Total current liabilities	**693,426**	**29.66%**	**691,290**	**28.36%**	**2,136**	**0.31%**
MEDIUM-/LONG-TERM LIABILITIES						
Loans	31,946		12,460		19,486	156.39%
Payables to suppliers	8,448		14,521		-6,073	-
Staff severance fund	4,233		2,952		1,281	43.39%
Provisions for risks and future liabilities	23,437		54,702		-31,265	-57.16%
Other medium-/long-term liabilities	-		-		-	-
Total medium-/long-term liabilities	**68,064**	**2.91%**	**84,635**	**3.47%**	**-16,571**	**-19.58%**
Total liabilities	**761,490**	**32.57%**	**775,925**	**31.83%**	**-14,435**	**-1.86%**
SHAREHOLDERS' EQUITY						
Share capital	184,460		180,867		3,593	1.99%
Reserves	1,506,686		1,632,896		(126,210)	-7.73%
Net profit	(114,535)		(152,297)		37,762	-24.79%
Total shareholders' equity	**1,576,611**	**67.43%**	**1,661,466**	**68.17%**	**(84,855)**	**-5.11%**
TOTAL	**2,338,101**	**100.00%**	**2,437,391**	**100.00%**	**(99,290)**	**-4.07%**

RESTATED PROFIT AND LOSS ACCOUNT

EUR/000	31.12.2003	%	31.12.2002	%	CHANGE	CHANGE %
VALUE OF PRODUCTION	**180,364**	**100.00%**	**140,887**	**122.47%**	**39,477**	**28.02%**
Operating costs:						
Purchases	(3,723)	-2.06%	(2,068)	-1.80%	(1,655)	80.03%
Services rendered	(129,090)	-71.57%	(120,064)	-104.37%	(9,026)	7.52%
Amortisation/depreciation	-	-	-	-	-	-
Personnel costs	(33,065)	-18.33%	(27,644)	-24.03%	(5,421)	19.61%
Increase (decrease) in inventories	(267)	-0.15%	(177)	-0.15%	(90)	50.85%
Other running costs	(21,820)	-12.10%	(21,121)	-18.36%	(699)	3.31%
EBITDA	**(7,601)**	**-4.21%**	**(30,187)**	**-26.24%**	**22,586**	**-74.82%**
Amortisation/depreciation	(29,123)	-16.15%	(19,865)	-17.27%	(9,258)	46.60%
Other provisions	(36,906)	-20.46%	(45,159)	-39.26%	8,253	-18.28%
EBIT	**(73,630)**	**-40.82%**	**(95,211)**	**-82.76%**	**21,581**	**-22.67%**
Financial income	567	0.31%	36,093	31.37%	(35,526)	-98.43%
Financial charges	(2,856)	-1.58%	(2,811)	-2.44%	(45)	1.60%
Miscellaneous income	20,626	11.44%	979	0.85%	19,647	2006.84%
Miscellaneous charges	(59,242)	-32.85%	(91,347)	-79.41%	32,105	-35.15%
Profit before tax	**(114,535)**	**-63.50%**	**(152,297)**	**-132.39%**	**37,762**	**-24.79%**
Corporate income tax for the year:						
Current portion	-	-	-	-	-	-
Deferred portion	-	-	-	-	-	-
PROFIT (LOSS) FOR THE YEAR	**(114,535)**	**-63.50%**	**(152,297)**	**-132.39%**	**37,762**	**-24.79%**

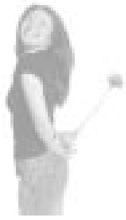
Cash flow statement

	CASH FLOW STATEMENT EUR/000	31.12.2003	31.12.2002
A)	**Net debt at the end of the previous year**	**(29,580)**	**(14,350)**
	Net profit (loss) for the year	(114,535)	(152,297)
	Depreciation, amortisation and write-downs	30,504	23,768
	Net change in reserve for risks and charges	(31,265)	31,700
	Net change in staff severance indemnity reserve	1,281	1,145
	Write-downs on investments		
	Change in net working capital, of which:	(39,357)	106,910
	- change in receivables	(30,563)	(19,426)
	- change in inventories	(1,164)	120
	- change in accrued income and deferred charges	(3,530)	6,365
	- change in payables	(2,539)	121,822
	- change in accrued liabilities and deferred income	(1,561)	(1,971)
B)	**Cash flows from operations**	**(152,226)**	**11,226**
	Net changes in non-current assets		
	- tangible assets	(35,391)	(20,213)
	- intangible assets	(14,293)	(53,969)
	- investments	82,293	30,069
C)	**Cash flows from investments**	**32,609**	**(44,113)**
	Change in financial payables	19,486	12,330
	Other medium-/long-term liabilities	-	-
	Other medium-/long-term assets	71,930	(15,472)
	Changes in shareholders' equity	29,679	20,799
D)	**Cash flows from financing operations**	**121,095**	**17,657**
E)	**Cash flows for the year (B + C + D)**	**1,478**	**(15,230)**
F)	**Net debt at year end (A - E)**	**(28,102)**	**(29,580)**
	Cash and cash equivalents and receivables from banks	3,718	2,079
	Short-term investments	-	-
	Short-term bank debt	(31,820)	(31,659)

Renato Soru

For the Board of Directors
The Chairman

Renato Soru



REPORT OF THE BOARD OF AUDITORS TO THE SHAREHOLDERS' MEETING PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/98 AND ARTICLE 2429 PARAGRAPH 3 OF THE ITALIAN CIVIL CODE

To the shareholders of Tiscali SpA

During the financial year ending on 31 December 2003, we performed the auditing duties required by law, in accordance with the code of practice for internal auditors recommended by the Italian association of auditors and accountants.

In particular, pursuant to the guidelines issued by Consob on 6 April 2001, and updated on 4 April 2003, we report that:

- We have monitored the company's activities in order to verify that it operated in due compliance with the law and with its articles of association.

- We have obtained from the directors the necessary information on the company's business and any major transactions entered into by the company in relation to its business, finances or assets either directly or through its subsidiaries, and are satisfied that all actions approved and implemented were carried out in accordance with the law, the company's articles of association and general criteria of best practice, and that such actions may not be considered imprudent or risky, or lead to a potential conflict of interests or conflict with the decisions made at the shareholders' meeting, or compromise the integrity of the company's assets.

- Within our mandate, we have analysed and monitored the efficiency of the organisational structure and adherence to principles of administrative best practice, as well as the appropriateness of the instructions communicated by the company to its subsidiaries pursuant to art. 114, paragraph 2 of Legislative Decree 58/98, by collecting data from the heads of each department and holding meetings with the external auditors for the purpose of exchanging relevant information. We have no particular observations to make in this respect.

- We have monitored the effectiveness of the company's internal audit systems, administrative procedures and accounting system, including the ability of the latter to accurately reflect the status of operations. This was achieved by obtaining information from the heads of the relevant departments, attending meetings with the Internal Audit Committee and the Internal Audit Manager and analysing the results of the work carried out by the external auditors. On this point, we note that in early 2004, the company's internal audit procedures were improved and a new Internal Audit Manager appointed. The Internal Audit Committee and the Board of Auditors also examined and discussed the company's internal audit plans. We note that some aspects of the preparation of the consolidated accounts could be improved upon.

- We have held meetings with the external auditors, pursuant to art. 150, paragraph 2 of Legislative Decree 58/98. In the course of these meetings no significant facts worthy of mention in this report came to light.

- We are not aware of any unusual or irregular transactions occurring between group companies or related parties.

- The most significant intra-group transactions of which we have been informed pursuant to art. 150 of Legislative Decree 58/98 relate essentially to operations to reorganise the group, and were carried out in the interests of same with the purpose of rationalising resources.

- Transactions with related parties and their financial effects are described in detail in the notes to the accounts of the parent company's annual report.

- In addition to work carried out separately, the auditors attended twenty-one meetings of the Board of Auditors and all six meetings of the Board of Directors, in accordance with art. 149, paragraph 2 of Legislative Decree 58/98.

- Today, the auditing company Deloitte & Touche SpA issued its report on the annual report and accounts and the consolidated accounts. The report requested details on:

  annual report and accounts

  a) the covenants attached to the bonds maturing in July 2004 and 2005;
  b) the achievement or otherwise of the objectives set out in the strategic plan, as a key condition for ensuring the financial and economic stability of the company;
  c) how the consolidated accounts are drawn up;

  consolidated accounts

  a) the effects of the changes to the company's estimates on the remaining life of its tangible and intangible assets, and the recording of assets relating to prepaid taxes;
  b) the covenants attached to the bonds maturing in July 2004 and 2005;
  c) the achievement or otherwise of the objectives set out in the strategic plan, as a key condition for ensuring the financial and economic stability of the company—taking account of the funds necessary to sustain growth, particularly in the broadband sector;
  d) disputes currently under way for which the final outcome is not yet known.

  The information requested above requires no further comment on our part.

- No complaints were received pursuant to art. 2408 of the Italian civil code, and no charges were brought by third parties.

- With reference to corporate governance, the company adheres to the Code of Conduct for Listed Companies, which was last updated in July 2002. For further information please refer to the report on this subject presented by the directors at the shareholders' meeting.

- During 2003, Tiscali SpA requested Deloitte & Touche SpA (and related parties) to carry out a number of assignments other than the auditing of the annual report and accounts and consolidated accounts. The payments for these services (excluding VAT) are shown below:

	EUR/000
Auditing services (annual report and consolidated accounts, including accounts of subsidiaries and holdings) pursuant to art. 155 of Legislative Decree 58/98	827
Opinions on compliance with art. 2441 of the civil code	245
Other assignments (including auditing fees paid to other Deloitte & Touche offices in Europe)	193
Total	1,265

- During the year, the Board of Auditors was not required to issue any opinions in accordance with the law. Opinions issued by the external auditors were as follows:

Date	Opinion
13 Apr 2003	Report on the minimum price of shares issued in respect of a capital increase (with no subscription rights) pursuant to art. 2441 of the civil code and art. 158 of Legislative Decree 58/98 for: • Airtel Movil SA • Nextra SpA • Tiscali Internet Limited • VTL Inc • Wanadoo International SA
10 Oct 2003	Report on the minimum price of shares issued in respect of a capital increase (with no subscription rights) pursuant to art. 2441 of the civil code and art. 158 of Legislative Decree 58/98 for: • Home.se AB • Eunet Adv

In the course of our auditing activities, and based on the information obtained from the external auditors, we have found no significant omissions and/or failings and/or irregularities or any other significant fact necessitating a report to the authorities or worthy of mention in this report

Cagliari, 16 April 2004

THE BOARD OF AUDITORS

ALDO PAVAN
MASSIMO GIACONIA
PIERO MACCIONI

Deloitte.

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AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE N. 58 OF 24 FEBRUARY 1998

To the Shareholders
of Tiscali S.p.A.

1. We have audited the consolidated financial statements of Tiscali S.p.A. and its subsidiaries (the "Tiscali Group") as of 31 December 2003. These financial statements are the responsibility of Tiscali's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditor's report issued by Deloitte & Touche S.p.A. (*now DT S.p.A.*) on 11 April 2003.

3. In our opinion, the Tiscali Group's consolidated financial statements present fairly the financial position of the Tiscali Group as of 31 December 2003, and the results of its operations for the year then ended in accordance with the Italian regulations governing financial statements.

4. For a better understanding of the consolidated financial statements, we draw your attention to the following items, which have been disclosed in detail by the Directors in the report on operations and in the explanatory notes.

   a) The consolidated financial statements as of 31 December 2003 show a net loss and a net shareholders' equity of Euro 246.0 million and Euro 425.6 million, respectively. The Directors have disclosed in the report on operations and in the explanatory notes that such amounts have been significantly and favourably influenced by the following:

      - Change in estimated residual useful life of the differences on consolidation, relating to goodwill and shown under intangible assets, with the consequent extension of the amortisation period from five years, the average used up to the previous year, to twelve years. This change, explained by the Directors in the report on operations and in the explanatory notes and supported by an independent consultant engaged by the Tiscali Group, led to Euro 129.8 million less amortisation for the year.

- Group standardisation of tangible asset depreciation rates, mainly referring to plant and equipment, particularly technical network equipment. This change, also supported by an independent consultant's report, has led to Euro 12.1 million less depreciation for the year.

- Recording of deferred tax assets of Euro 51.6 million, arising from the tax losses to be carried forward pertaining to the Tiscali Group's subsidiaries based in The Netherlands and South Africa. As disclosed in the explanatory notes, such deferred tax assets refer only to subsidiaries that generated taxable income in 2003 and, in the Directors' opinion, there is the reasonable certainty that the subsidiaries will be able to generate taxable income that could recover such losses within the period allowed under local regulations.

The consolidated net loss of the period and the consolidated net shareholders' equity were favourably affected by the above mentioned items for a total amount of Euro 193.5 million.

b) As disclosed in the report on operations and in the explanatory notes, the Tiscali Group currently shows bonds issued by Tiscali Finance S.A., a fully owned subsidiary of the holding company Tiscali S.p.A., incorporated in Luxembourg, for a total amount of Euro 539.8 million, of which Euro 80.3 million falls due in July 2004, Euro 250.0 million falls due in July 2005 and Euro 209.5 million in convertible bonds falls due in September 2006. The related repayment terms and conditions are specified in the explanatory notes. In this regard, the bonds maturing in July 2004 and July 2005 include a covenant linked to the Tiscali Group's debt finance and consolidated shareholders' equity at 31 December each year, whose non-fulfillment would result in default. As of 31 December 2003, the applicable covenant (in presence of negative cash-flow during the year and of consolidated gross financial indebtedness higher than Euro 600 million) provides that the consolidated gross financial indebtedness must not exceed double the consolidated net shareholders' equity. In this circumstance, also taking into consideration the effects described above in paragraph 4 a), the consolidated net shareholders' equity as of 31 December 2003 is Euro 425.6 million and, consequently, considering the consolidated gross financial indebtedness at the same date, amounting to Euro 655.7 million, the above ratio results lower than the limit imposed by the covenant.

c) As stated in the report on operations and in the explanatory notes, Tiscali S.p.A.'s board of directors prepared and approved a strategic plan based on ADSL services growth and on a sharper focus on Europe's major markets. Within the strategic plan, which has been prepared taking into consideration the constraints deriving from the financial requirements related to the redemption of the outstanding bonds, the Directors expect that:

- The financial resources existing in the Tiscali Group, including cash flow from ordinary operations, expected to be generated from the last quarter of 2004, should provide the bulk of the funding to redeem the bonds due in July 2004 (Euro 80.3 million), in addition to a significant portion of the bonds due in July 2005 (Euro 250.0 million).

- Further financial resources could be made available from the disposal of investments in non-core markets, already approved by the Board of Directors although as of today not yet realised.

In addition, given the level of investment required to sustain the growth, particularly in the ADSL market, Tiscali plans to refinance all or part of the bonds due in 2005. The necessary financing could be obtained from banks, through the equity or bond markets, which may include a convertible issue.

Therefore, the achievement of the objectives indicated by the Directors in the context of the strategic plan, including the short-term collection of the receivables considered by the Tiscali Group for assessing its net financial position, represents an essential condition in assuring that Tiscali Group reaches financial equilibrium, and therefore guarantee the capacity that the Tiscali Group is able to meet the commitments connected to the next bonds issue falling due and comply with the related covenants, and that it will be able to raise the finances necessary to sustain growth, particularly in the ADSL services.

d) As disclosed in the report on operations and in the explanatory notes, the Tiscali Group, as of 31 December 2003, is involved in certain legal disputes instituted by third parties against the Tiscali Group's entities World Online International NV and World Online Ltd, dating back to the time of the acquisition of the former World Online Group by the Tiscali Group, for a total claim of damages of around Euro 87 million. In respect of these claims, the Tiscali Group accounted for, in the consolidated financial statements as of 31 December 2003, under reserves for risks and charges, a total provision of Euro 3 million, as the Directors, based on their legal advisors' opinion, believe those claims are unfounded. In addition, a tax dispute, for a total amount of Euro 40 million, exists with reference to World Online International NV, arising from social security contributions on the payments received in previous years by its former Directors. With reference to this litigation, the Tiscali Group, on the basis of its fiscal advisors' opinion, did not account for a provision under reserves for risks and charges, as these claims were considered unfounded.
At the time being, it is not possible to foresee the final result of these litigations.

DELOITTE & TOUCHE S.p.A.

Signed by

Antonio Cocco
Partner

Cagliari, 16 April 2004

This report has been translated into the English language solely for the convenience of international readers.

Deloitte.

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AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE N. 58 OF 24 FEBRUARY 1998

**To the Shareholders
of Tiscali S.p.A.**

1. We have audited the financial statements of Tiscali S.p.A. as of 31 December 2003. These financial statements are the responsibility of Tiscali's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the Auditing Standards recommended by Consob, the Italian Commission for listed Companies and Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes as required by law, reference should be made to the auditor's report issued by Deloitte & Touche S.p.A. (*now DT S.p.A.*) on 11 April 2003.

3. In our opinion, the financial statements present fairly the financial position of Tiscali S.p.A. as of 31 December 2003, and the results of its operations for the year then ended in accordance with the Italian regulations governing financial statements.

4. For a better understanding of the financial statements, we draw your attention to the following items, which have been disclosed in detail by the Directors in the report on operations and in the explanatory notes.

   a) As disclosed in the explanatory notes, Tiscali S.p.A. guarantees the bonds issued by its subsidiary Tiscali Finance S.A., incorporated in Luxembourg, for a total amount of Euro 539.8 million, of which Euro 80.3 million falls due in July 2004, Euro 250.0 million falls due in July 2005 and Euro 209.5 million falls due in September 2006. In this regard, the bonds maturing in July 2004 and July 2005 include a covenant linked to the Tiscali Group's debt finance and consolidated shareholders' equity at 31 December each year, whose non-fulfillment would result in default. As of 31 December 2003, the applicable covenant (in presence of negative cash-flow during the year and of consolidated gross financial indebtedness higher than Euro 600 million) provides that the consolidated gross financial indebtedness must not exceed double the consolidated net shareholders' equity. In this circumstance, also taking into consideration the effects, reported by the Directors in the explanatory notes to the consolidated financial statements, relating to the change in estimations of the intangible assets' amortisation and tangible assets' depreciation, and the booking the deferred tax assets arising from the tax losses carried forward by certain Tiscali Group entities, the above ratio results lower than the limit imposed by the covenant.

With reference to the bonds falling due in September 2006, it should be noted that, starting from September 2004, these bonds are redeemable in cash or convertible into Tiscali S.p.A. shares, under the unquestionable decision of the issuer. If, at maturity, Tiscali's market price is lower than the conversion price (set at Euro 7.57 per share), the difference between the conversion price and the market price will have to be reimbursed in cash.

b) The Directors have disclosed in the report on operations the guidelines of the Tiscali Group strategic plan, which has been prepared taking into consideration the constraints deriving from the financial requirements related to the redemption of the outstanding bonds, together with the actions that the Directors have planned to carry out to implement the strategic plan, in compliance with the undertaken commitments.

Therefore, the achievement of the objectives indicated by the Directors in the context of the strategic plan represents an essential condition in assuring that Tiscali S.p.A. and Tiscali Group reach financial equilibrium, and therefore guarantee the capacity that the Tiscali Group is able to meet the commitments connected to the next bonds issue falling due and comply with the related covenants.

5. The Company holds controlling interests and has therefore prepared consolidated financial statements. These consolidated financial statements have been audited by us and the relative auditor's report has been issued bearing today's date.

DELOITTE & TOUCHE S.p.A.

Signed by

Antonio Cocco
Partner

Cagliari, 16 April 2004

This report has been translated into the English language solely for the convenience of international readers.

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