ANNUAL REPORT 2004

INDEX

- DIRECTORS AND AUDITORS 7
- REPORT ON OPERATIONS 9
  - Market background 11
  - Regulatory situation 15
  - Tiscali shares 18
  - Results and performance of the Tiscali Group 21
  - Results and operating performance of the parent company 38
  - Disposals plan for non-strategic assets 42
  - Extraordinary operations 43
  - Ongoing disputes 44
  - Transition to IAS/IFRS 45
  - Operations with related parties 47
  - Corporate Governance 47
  - Events taking place after the end of the financial year 54
  - Outlook and prospects 55
- CONSOLIDATED ACCOUNTS 59
  - Consolidated financial statements 61
  - Notes to the consolidated financial statements 67
- PARENT COMPANY ANNUAL ACCOUNTS 109
  - Parent company financial statements 111
  - Notes to the parent company financial statements 117
- REPORTS 153

CHAIRMAN'S LETTER

Dear Shareholders,

Last year was a topical one for your company.

Tiscali's refocusing on specific countries, completed in early 2005, has strengthened our financial structure, enabling us to play a greater role in the rapidly-growing markets in which we operate.

Households' demand for broadband services has been particularly buoyant in the major European countries. The estimated number of broadband users shot up by 72% in 2004, assisted by the gradual opening up of the market following changes in national legislation. Broadband services are gaining a foothold more quickly than other new technologies (such as mobile telephones) that have been similarly successful.

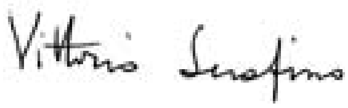
This favourable situation now requires greater commitment (including financial) from innovative operators who are prepared to make the commercial and technological investment needed to gain a significant share of the market.

Tiscali is rising to the challenge thanks to a significant customer base (7.4 million active users at 31 December 2004) and state-of-the-art proprietary infrastructure for IP traffic, together with a financial structure that will enable us to generate sustainable value over time for shareholders.

In 2004, the number of ADSL customers almost doubled from 840,000 to 1.65 million, despite the company's shift in focus. EBITDA rose from EUR 74.7 million at the end of 2003 to EUR 108.8 million at the end of 2004, in line with market expectations. We are now poised to make further significant improvements over the next few years.

Lastly, to conclude the key events of last year, we should mention the departure of Renato Soru, following his election success, to take up office as President of Sardinia's regional Government. He remains the main shareholder of the company, which has benefited from his business acumen, strategic vision and operational flair. Tiscali has now entered a new phase of its life, and aims to retain the entrepreneurial drive that has distinguished it until now while also consolidating its structures. Shareholders will thus be able to reap the rewards of the company's considerable investment, and of the favourable growth prospects in the sector in which we operate.

Vittorio Serafino



Vittorio Serafino
Chairman

Value through diversity

Ruud Huisman
CEO, ad interim CEO
The Netherlands

Massimo Cristofori
CFO

Sergio Cellini
CEO Tiscali Italy

Naveed Gill
CEO Tiscali
Czech Republic

Carl Müehlner
CEO Tiscali Germany

Mary Turner
CEO Tiscali UK

Pierpaolo Festino
SVP Marketing & Sales

Mario Mariani
SVP Business
Development

Salvatore Pulvirenti
CIO

Paolo Susnik
CTO

DIRECTORS AND AUDITORS

Board of Directors

Chairman

Vittorio Serafino

Chief Executive Officer

Ruud Huisman

Chief Financial Officer

Massimo Cristofori

Directors

Tomaso Barbini

Franco Bernabè

Victor Bischoff

Gabriel Pretre

Mario Rosso

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.

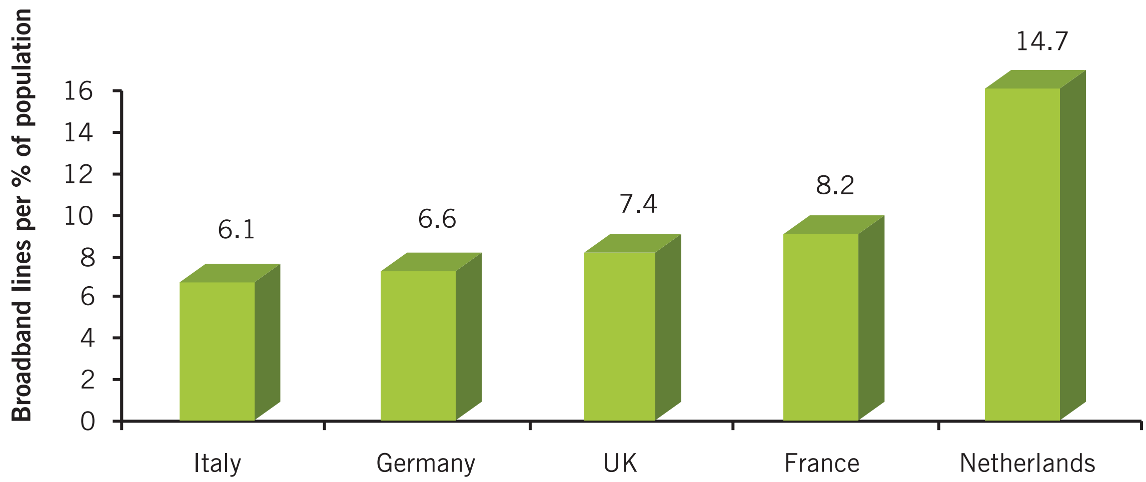
REPORT ON OPERATIONS

Market background

Growth in the residential internet market

The strong growth that characterised 2003 has paved the way for a radical change in consumer habits and in the relationship Europeans have with the internet. In 2004, demand for broadband internet soared, while the number of associated value-added services increased at the same time.

Fixed broadband penetration rate

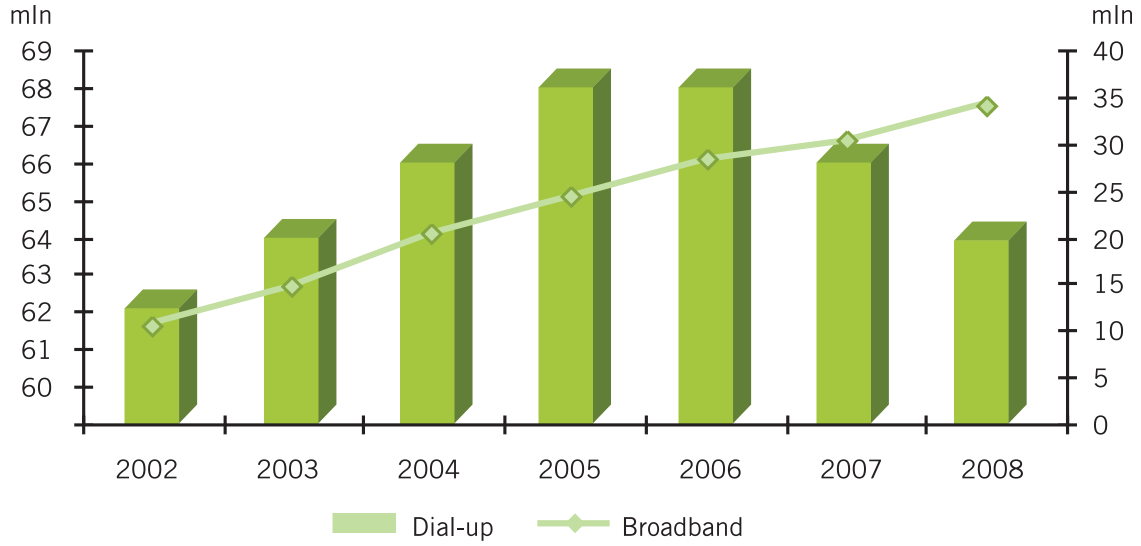


Source: EU 10th Implementation Report

At the end of 2004 there were around 75 million active "residential" users in Western Europe. More than 31 million of them had broadband access (a 72% increase on 2003), corresponding to 7.6% of the European population (15 countries), versus 4.5% in 2003. These remarkable figures are indicative of the changes under way in the European internet market. While demand for broadband services has risen exponentially, demand for narrowband services has dwindled. (Source: EU 10th Implementation Report).

It is estimated that this growth will continue in the years to come: according to market forecasts, broadband internet will reach more than 50% of households in Europe by 2007, based on a penetration rate in 2003 of around 15%. (Source: National Regulatory Authority, EU 10th Implementation Report).

Residential customers – Western Europe - 2002/2008



Source: Gartner Dataquest (August 2004)

In 2004 price differences between dial-up and broadband access fell dramatically. This has led to an increase in the number of residential broadband users, whereas previously this service was predominantly taken up by business users.

The driving factors behind the growth in broadband include better value for money, a wider range of services, and the rising popularity of the internet, which has transformed a niche product into an everyday commodity. With prices steadily falling, the range of innovative broadband services has increased, accompanied by improvements in the capacity, quality and speed of transmission. Some of the most popular products are bundled and double play (voice and data) services, which have helped increase average revenue per user (ARPU). Yet the double play concept is only the beginning of a market trend that sees internet access merge with voice and content services (triple play).

It is estimated that in the next few years, internet operators will see revenues from residential users increase. At the beginning of 2004 residential revenues stood at just under EUR 6 billion. By 2008 this should have reached EUR 8 billion, with a compound annual growth rate of 6.3% (Source: Gartner, Inc. Market Trends Western Europe).

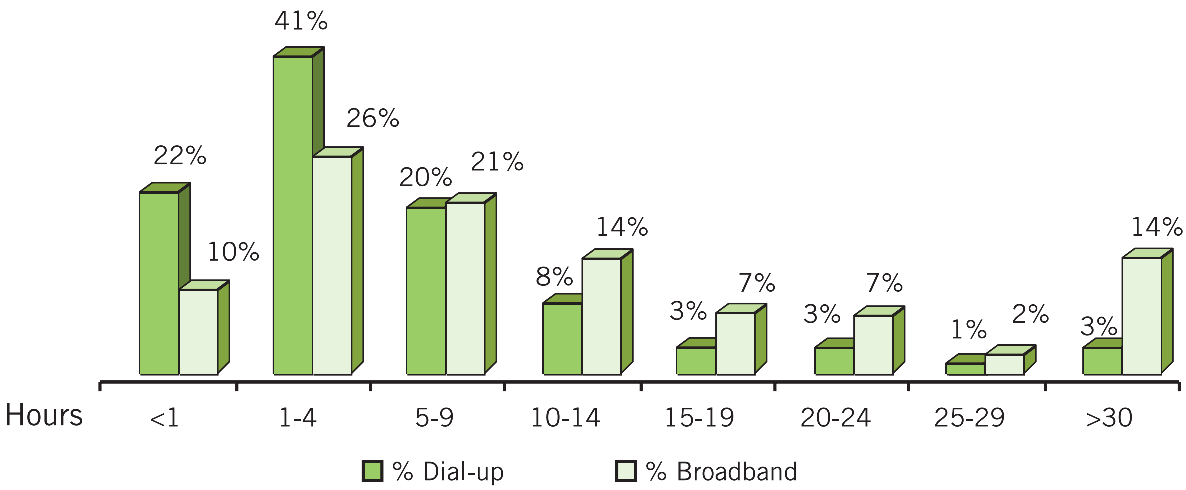
With the alignment of broadband and dial-up prices, revenues from the sale of broadband packages have increased, combining value-added services with voice and content services. In 2003 the value-added services market in Western Europe was estimated at around EUR 337 million, a mere 2.1% of total internet revenues. In 2008 this market should be worth EUR 1.4 billion or around 6% of total internet access revenues (Source: Gartner, Inc).

The launch of content and other services for residential customers with broadband access, such as telephone and pay services (e.g. music and film downloads), in addition to video content, has generated increasing ARPU for internet operators. Revenues from business services will grow at a CAGR of 8.4% between 2003 and 2008, when sales should reach EUR 11 billion (Source: Gartner, Inc, Market Trends Western Europe).

Narrowband market

In Western Europe the number of customers accessing the internet via narrowband (PSTN and ISDN) grew from 68 million at the beginning of 2004 to around 75 million by December. At the end of 2004, dial-up users accounted for around 60% of the entire residential internet market-a marked decline from the 81.5% at the end of 2003. For the residential dial-up market, Gartner estimates a CAGR of 0.7% between 2003 and 2008.

Hours per week spent connected to the internet per user



Basis: European consumers (seven main European markets)
Source: Forrester Research, Inc

Broadband market

The broadband internet market has seen intense competition between alternative operators, keen to capture a significant market share during this boom period, and former monopoly holders who, seeing their market share eroded following deregulation, view broadband as a means of retaining their leading position and an opportunity for growth.

Each European country has a different market. These differences are highlighted using several key indicators, such as:

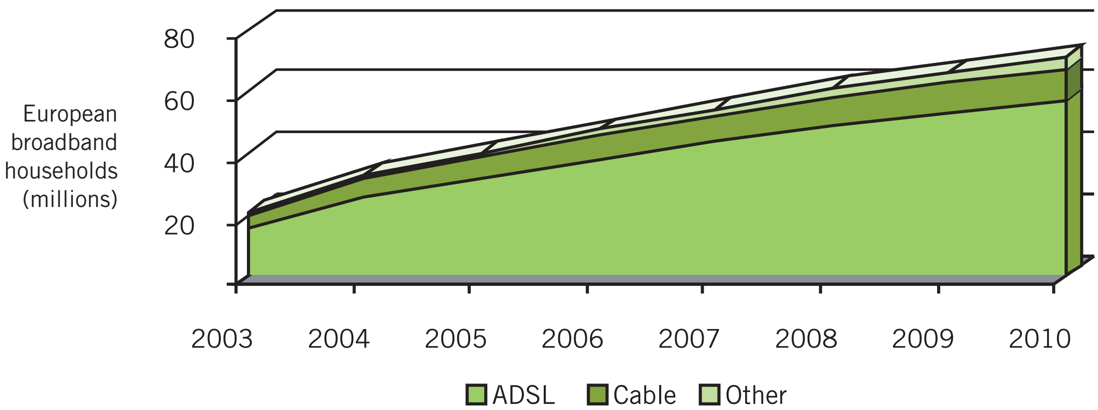
- penetration rate
- growth rate
- technologies adopted
- market structure, competition
- financial resources available for infrastructure investment

The last indicator is particularly significant in terms of access by potential new entrants.

There are different types of broadband access, from xDSL technology to high-speed cable or satellite connections.

In general, xDSL technology continues to be the dominant technology, accounting for more than 77% of the broadband market (25 European countries). Cable represents around 19% of the market, with other technologies (including satellite and wireless ULL) making up the remainder.

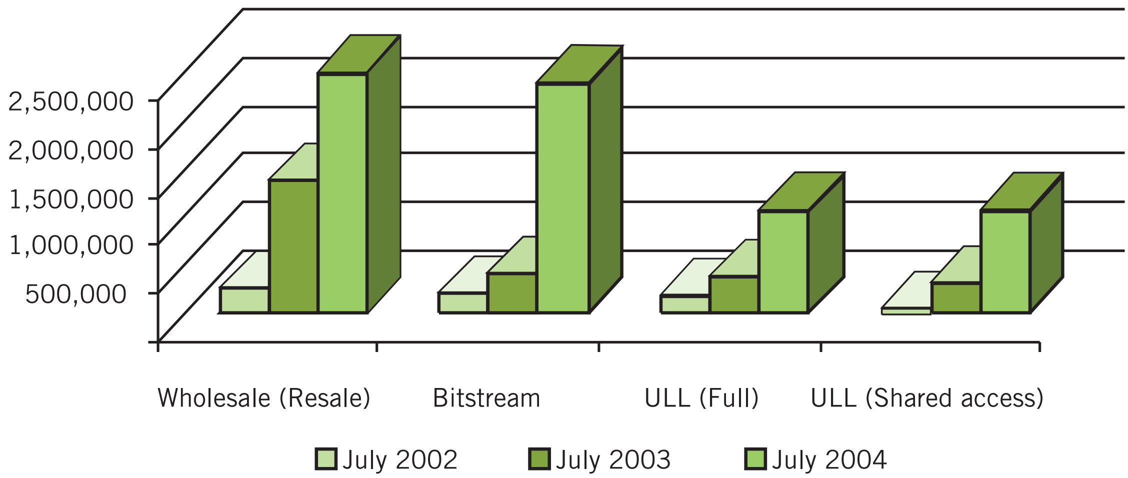
Forecast: Europe's Residential Broadband Technology 2004 - 2010



"Other" includes wireless, WiMax, satellite, fibre and powerline.
Source: Forrester Research, Inc

The table below illustrates the distribution of DSL access adopted by the various alternative operators (residential and business customers).

New entrants' DSL retail lines in the EU (25)

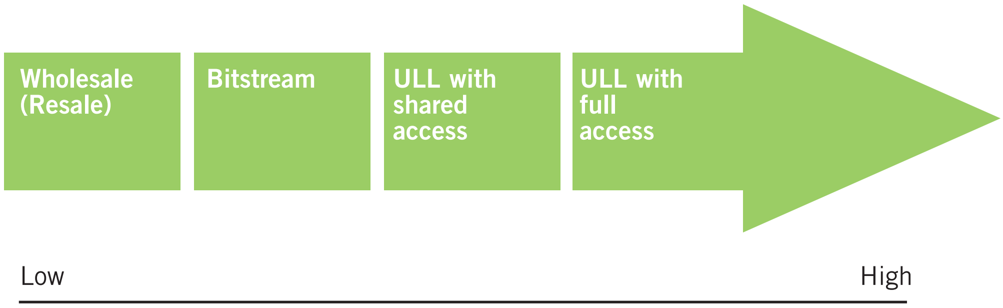


Source: EU 10th Implementation Report

In 2003 more than 73% of services offered by new entrants in Western Europe were ADSL wholesale services. After a year, bitstream and wholesale ADSL account for 67% of the market. It is important to note that at the same time, the number of unbundled ADSL lines (full and shared access) has risen steadily.

The new operators tend to be moving away from wholesale business models and towards systems involving full or partial ULL management (full/shared unbundling).

Use of proprietary network infrastructure by alternative operators



Market share in key countries

DECEMBER 2004	GERMANY	ITALY	NETHERLANDS	UK
Tiscali market share	3%	4%	6%	7%

Source: Tiscali estimates based on CMA Dataxis data

Business user market

At the beginning of 2004 there were around 60 million business users. According to Gartner, in 2008 there will be 84 million. (Source: Gartner, Inc.)

The wholesale dial-up market for business customers began to decline in the fourth quarter of 2004. Even small and medium-sized enterprises (SMEs) in Europe are migrating to broadband. The SME segment thus represents a major target in terms of volume for leading ISPs. Apart from high-speed internet access, SMEs require other value-added services, such as security and web hosting.

Regulatory situation

On 11 February 2003 the European Commission published the "Recommendation on relevant product and service markets within the electronic communications sector susceptible to ex ante regulation in accordance with Directive 2002/21/EC of the European Parliament and the Council on a common regulatory framework for electronic communication networks and services". This, together with the directives that make up the "New Regulatory Framework" (NRF), completes the legal framework for the electronic communications sector in the European Union, which includes broadband.

At the time of writing, only five countries had not yet completed the transposition of the new regulatory framework. The market analysis necessary before special regulations can be introduced in each of the 18 markets identified by the recommendation is still ongoing in all EU member states.

The recommendation raises three key points that may have a significant impact on the future of broadband.

- All aspects of the telecommunications market, including broadband, may be regulated by the national authorities to safeguard competition for alternative operators, particularly in their dealings with the incumbent.
- The regulation has split the market into 18 segments rather than four: wholesale broadband is one of these. This new segmentation will offer greater flexibility, taking account of specific situations and allowing more targeted legislation.
- The regulation is technologically neutral, i.e. its provisions apply to markets and services rather than to specific technologies. In other words, the same service offered with a different technology is still subject to the same regulations (e.g. voice services on switched IP protocol lines).

For an alternative operator such as Tiscali, the main advantages of the new regulation are:

- being able to have bitstream broadband access on the incumbent's network at cost
- focusing the attention of the national regulatory authorities and the European Commission on competition-related issues, such as ULL tariffs

Although the document represents a step towards developing the broadband market, there is still room for improvement.

The NRF regulation will be implemented by the various national authorities, which means that differences could emerge in how the legislation is implemented in each country.

To date only wholesale broadband access has been subject to regulation, allowing the incumbent to restrict competition by taking advantage of its position in the area of retail prices (e.g. Alice in Italy). However, Tiscali has asked the national authorities to extend their control over the market to the retail sector, to prevent incumbents from lowering the prices they charge under existing regulations.

Switching customers from wholesale broadband to ULL or between operators is expensive and technically difficult. Tiscali has submitted a report to the European Commission on the matter, and the subject was examined in the last European Implementation Report.

Tiscali is lobbying at national and EU level to bring about legislative reforms and to increase competition in its markets:

- at national level, by participating in market analysis consultations organised by the national regulatory authorities;
- at EU level, through regular dialogue with the European Commission, and joint initiatives adopted with other alternative operators.

The following table illustrates the situation as regards broadband regulation and the impact this has on Tiscali:

	UK	FRANCE	NETHERLANDS	ITALY	GERMANY
WHOLESALE	The wholesale sector affords slim margins, with prices based on the "retail minus" formula*. BT recently slashed its migration costs for both wholesale and bitstream.	The wholesale sector affords very slim margins.	The wholesale sector affords very slim margins and does not include ULL. The customer receives two bills, one from the ISP and the other from the incumbent.	Wholesale ADSL. Prices are based on the "retail minus" formula*.	The wholesale sector allows substantial margins, if ULL is managed by the incumbent. Since August 2004, ULL has also been deregulated.
BITSTREAM	Authorised since 2002. Margins are protected by Ofcom. This model affords reasonable margins and flexibility for Tiscali to offer bespoke retail services.	Bitstream is available, but France Telecom charges high prices (resulting in narrower margins). Price cuts are planned once the regulation has been updated by the regulatory authority.	Despite the formal introduction by the national authorities, the courts have opposed deregulation of the bitstream sector to protect KPN.	The commercial bitstream offer should become available in 1H 2005.	Bitstream is no longer available.
ULL	Ofcom has reduced activation costs and recurring expenses. Investment in ULL will start from 1Q 2005.	Price cuts are expected once the regulation has been updated by the regulatory authority (spring 2005).	Talks are under way regarding the regulation and ULL tariff. The acquisition of BabyXL has meant that Tiscali can reduce its network investment.	ULL tariffs are among the lowest in Europe, even though the initial investment remains high.	There are no plans for the incumbent to lower prices. Unbundling prices are still exorbitant.

**With the "retail minus" approach, the network price is determined by applying a price discount for retail customers; with "cost plus", the price depends on the costs incurred by the incumbent using the best technology available, plus a return on the investment.*

Tiscali shares

The Tiscali stock is listed on both the Italian stock market and Euronext in Paris.

At 31 December 2004 the company had a market capitalisation of EUR 1,027,056,509.

The number of shares comprising the share capital increased from 368,920,427 at 31 December 2003 to 393,238,142 at 31 December 2004.

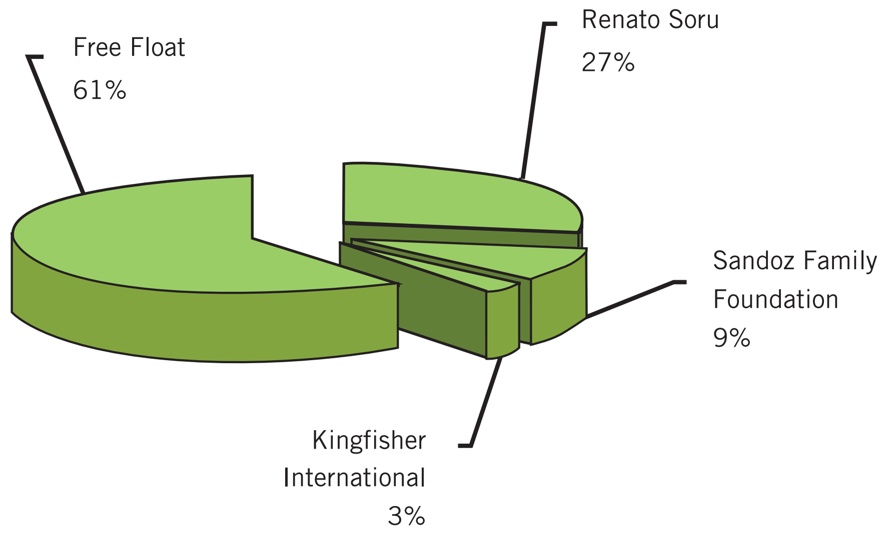
The table below lists the capital increases carried out during the year.

Share Capital Evolution

DATE	DESCRIPTION	NO. SHARES ISSUED	SHARE CAPITAL
30 December 2004	Capital increase subscribed by Société Générale	18,400,000	393,238,142
09 September 2004	Capital increase subscribed in exchange for a loan from Simon Luel (the representative of Jean-Philippe Illiesco De Grimaldi)	919,378	374,838,142
16 June 2004	Capital increase subscribed in exchange for a loan from Via Net Work UK Ltd	1,060,249	373,918,764
24 February 2004	Capital increase subscribed in exchange for the entire share capital of EUnet EDV und Internet Dienstleistungs AG	33,604,899	372,858,515
17 February 2004	Capital increase subscribed in exchange for the entire share capital of Home.se AB	333,189	369,253,616

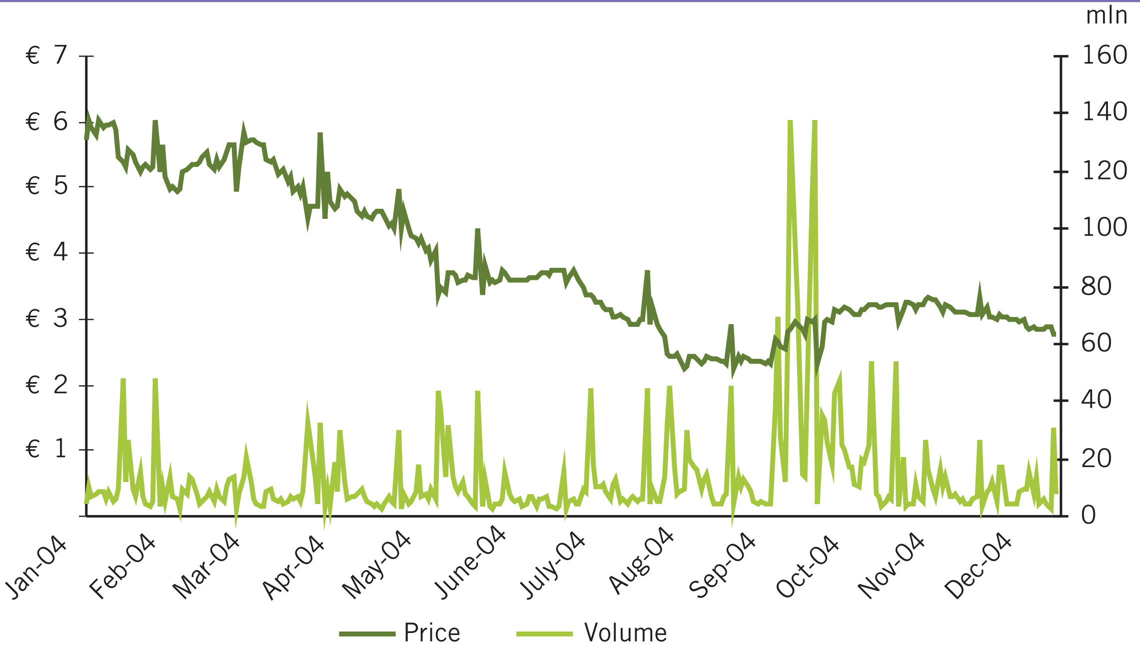
The chart below illustrates Tiscali's shareholder base at 31 December 2004:

Shareholding structure at 31 December 2004



In stock market terms 2004 was a difficult year. The Tiscali stock was hit by the economic downturn, due partly to speculation and partly to the poor performance of technology stocks in general.

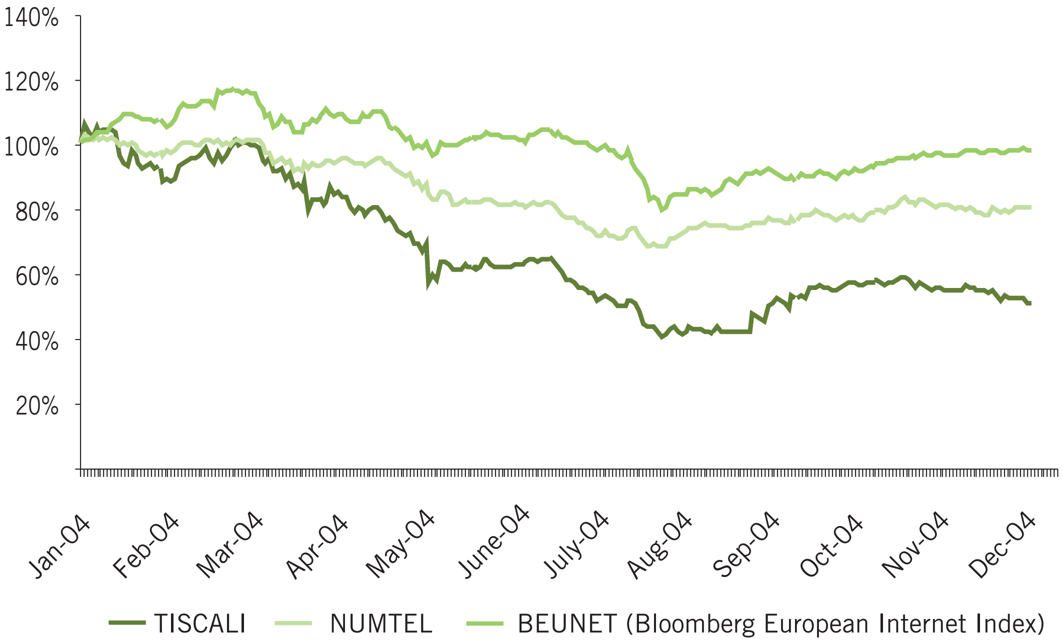
Tiscali Stock: share performance



Source: Bloomberg

In 2004, the Tiscali stock underperformed the Numtel Index and Bloomberg Internet Index, both of which fell over the year.

Tiscali share performance compared to main Tech Indexes



Source: Bloomberg

Trading volumes stood at a daily average of around 11,692,561 shares over the year, an increase on the previous year's average of 3.06 million. The average daily value of trades was EUR 44.1 million. The total value of trades for the year was EUR 10.5 billion.

In 2004 Milan remained the key market for the Tiscali stock. Average daily trades of Tiscali shares show that less than 1% of shares traded each day were listed on the Euronext Paris.

Average daily trades of Tiscali shares on its two markets.

Number of shares

DATE	NUOVO MERCATO		NOUVEAU MARCHÉ		TOTAL	
	NO. OF SHARES	IN %	NO. OF SHARES	IN %	NO. OF SHARES	IN %
January-04	9,598,341	99.78%	20,737	0.22%	9,619,078	100%
February-04	7,102,954	99.79%	14,760	0.21%	7,117,714	100%
March-04	8,589,810	99.81%	16,332	0.19%	8,606,142	100%
April-04	6,894,626	99.87%	9,020	0.13%	6,903,646	100%
May-04	11,657,484	99.94%	6,861	0.06%	11,664,345	100%
June-04	4,384,632	99.87%	5,883	0.13%	4,390,515	100%
July-04	8,679,485	99.90%	8,895	0.10%	8,688,380	100%
August-04	12,643,319	99.92%	10,743	0.08%	12,654,062	100%
September-04	34,449,276	99.98%	8,082	0.02%	34,457,358	100%
October-04	19,347,579	99.95%	9,731	0.05%	19,357,310	100%
November-04	7,692,389	99.93%	5,387	0.07%	7,697,776	100%
December-04	8,545,626	99.90%	8,208	0.10%	8,553,834	100%
Daily average	11,682 206	99.91%	10,354	0.09%	11,692,561	100%

Source: Bloomberg

Events Calendar

Below is the calendar of meetings for the Board of Directors and Shareholders' Meeting of Tiscali SpA for 2005.

DATE (*)	MEETINGS OF THE BOARD OF DIRECTORS
Monday, 14 February 2005	Approval of the quarterly report as at 31 December 2004
Tuesday, 29 March 2005	Approval of the draft annual results as at 31 December 2004
Thursday, 12 May 2005	Approval of the quarterly report as at 31 March 2005
Friday, 5 August 2005	Approval of the quarterly report as at 30 June 2005
Thursday, 22 September 2005	Approval of the interim report as at 30 June 2005
Thursday, 10 November 2005	Approval of the quarterly report as at 30 September 2005

DATE (*)	ANNUAL ORDINARY SHAREHOLDERS' MEETING
Saturday, 30 April 2005	Approval of the annual results for the year ended 31 December 2004 - first call
Thursday, 5 May 2005	Approval of the annual results for the year ended 31 December 2004 - second call

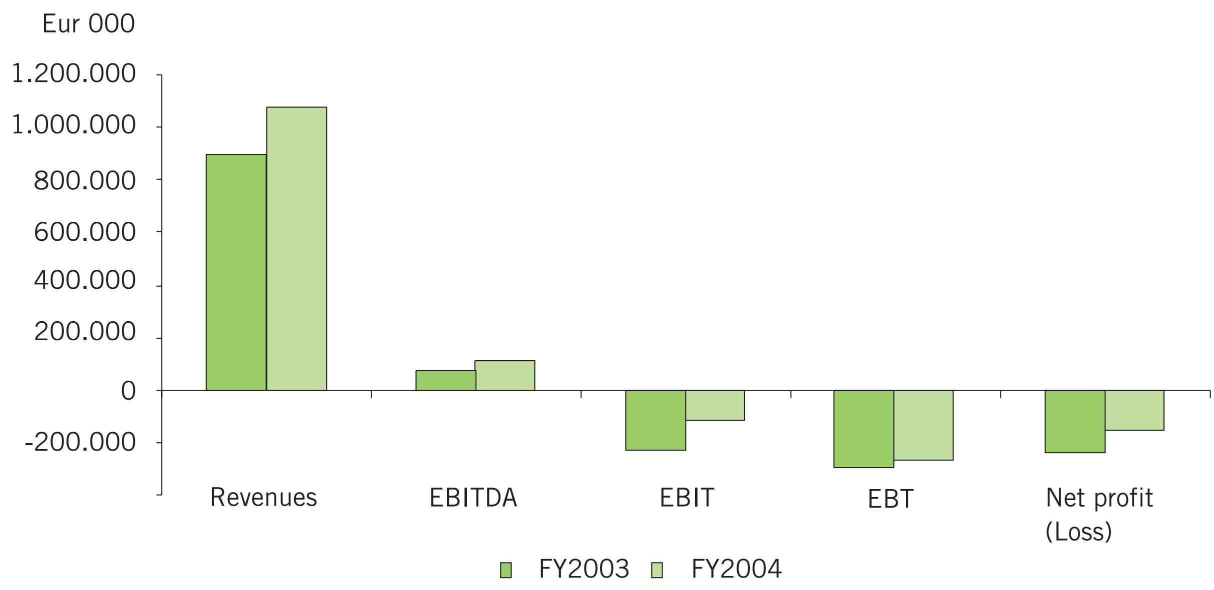
(*) These dates are intended as a guide.

Results and performance of the Tiscali Group

The performance of the Tiscali Group in 2004 is reflected in the following key results:

- Revenues of EUR 1,080.6 million, up 20% on 2003 (+23% on a same structure basis)
- EBITDA of EUR 108.8 million (10% of revenues), up 46% on 2003 (+38% on a same structure basis)
- Marked improvement in cash flow from operations (EUR 7.1 million in the fourth quarter). Improvement in net debt (+EUR 72.0 million) following the introduction of the financial plan
- 1.65 million ADSL users, of which 330,000 were receiving unbundled services

Profit and Loss



The results for the year ended 31 December 2004 show that the targets set were reached. Notably, there has been a significant upturn in revenues, profitability, ADSL users, and cash flow. Faced with a highly dynamic and competitive market offering enormous potential for growth in broadband services, and particularly in ADSL technology, the Tiscali Group embarked upon a strategic repositioning of the company in 2004. This led it to focus its activities in key European countries and to develop an unbundled network in Italy, the Netherlands, and France.

In previous years Tiscali channelled its resources and energy towards consolidating and upgrading its brand at European level, and reaching a critical mass of subscribers in both the dial-up (narrowband) and ADSL markets. As a result, in a rapidly expanding market, Tiscali was able to compete on an equal footing with the leading telecommunications operators (both national and international) and secure a high-ranking position in its various markets, where in 2004 it had 7.4 million active users, 1.65 million of them ADSL subscribers.

More specifically, the strategic decision to focus its activities in key European markets (Italy, The UK, The Netherlands, Germany, and France) and to invest in the development of an unbundled network infrastructure has allowed Tiscali to adopt a business model capable of delivering results. This is particularly due to the migration of ADSL users from wholesale to unbundled services, yielding higher margins and contributing towards the spread of associated services such as double play (voice and data transmission).

In 2004, Internet access once again powered the growth in revenues, accounting for 68% of total revenues. Reaching a critical mass of ADSL subscribers brought about a significant change in the revenues mix, with ADSL services clearly accounting for a higher share. The deployment of IP network infrastructure also led to a growth in the business segment, where revenues increased to 18% of total revenues.

In the first few months of 2004 the rise in the number of ADSL users, initially accompanied by greater emphasis on wholesale services, resulted in lower profitability and a smaller contribution to revenues. In the fourth quarter the deployment of the unbundled network, and the simultaneous -albeit partial- migration of ADSL users from wholesale services, brought about a crucial-and telling-reversal of the trend, suggesting a favourable outlook for 2005.

The gross profit for the year came in at EUR 480.3 million (+6% versus 2003), while the gross margin was 44% (51% in 2003).

Thanks to the significant increase in revenues, on the back of growth in ADSL user numbers, and more streamlined operating costs, the EBITDA margin improved to 10% of revenues in 2004.

The group made an EBIT loss of EUR 119.6 million, although this was a significant improvement (+48%) on the loss of EUR 228.9 million recorded in the same period in 2003.

The pre-tax loss at 31 December 2004 was EUR 269.1 million, down 9% compared with 2003 (EUR -295.6 million). The result was significantly affected by non-recurring items, specifically capital gains realised on the sale of certain shareholdings and extraordinary charges arising from the rationalisation and restructuring process described in the strategic plan launched during the year.

The net loss, taking into account deferred tax credit of EUR 110.7 million relating to the parent company and the UK subsidiary, was EUR 161.4 million, a 34% improvement on the loss of EUR 245.9 million reported the previous year.

In this context, of particular importance is the fact that in the fourth quarter 2004 the Tiscali group recorded positive cash flow from operations of EUR 7.1 million for the first time.

Investments in 2004 which involved the utilisation of financial resources totalled EUR 101.1 million (9% of revenues). The unbundling strategy deployed in The Netherlands, Italy, and France absorbed a large part of the investments performed during the year.

In the context of the above it forms the backdrop for the extraordinary operations carried out in the second half of 2004. These mainly consisted of the disposal of subsidiaries in Austria, Norway, Sweden, South Africa, Switzerland and Belgium, in line with the established plan and the group's strategic refocus on markets offering greatest potential for value creation.

In December, another major step forward in the implementation of Tiscali’s financial strategy consisted of the capital increase operation, partly in application of the resolution approved in June 2004 by the shareholders’ meeting.

The disposals programme and capital increase generated income of EUR 170 million at 31 December 2004, enabling the group to improve its financial position considerably. This, coupled with other measures now being finalised, will allow the group to complete a financial programme aimed at both servicing the reimbursement of its bonds and sustaining growth.

The group's cash resources totalled EUR 204.2 million at the end of 2004 (including tax receivables and term deposits), while net debt stood at EUR 359.6 million, excluding loans due to shareholders.

Tiscali group: key figures

Profit and Loss account

EUR/000	31.12.2004	31.12.2003
Revenues	**1,080,561**	**901,022**
Cost of goods and services	**(815,098)**	**(684,227)**
Personnel costs	**(156,641)**	**(142,066)**
EBITDA	**108,822**	**74,729**
Depreciation, amortisation, and write-downs	(153,946)	(154,560)
Goodwill amortisation	(51,189)	(72,063)
Other provisions	(23,294)	(76,976)
EBIT	**(119,607)**	**(228,870)**
Financial income (charges)	**(37,022)**	**(19,840)**
Extraordinary income (charges)	**(112,463)**	**(46,856)**
Pre-tax loss	**(269,092)**	**(295,566)**
Current taxes	(2,987)	(2,035)
Deferred taxes	110,708	51,619
Profit before minorities	**(161,371)**	**(245,982)**
Minorities	1,906	3,534
Group loss	**(159,466)**	**(242,448)**

To aid our understanding of performance in 2004, the following comments, made with reference to the various items on the profit and loss account, take account of the disposal, in the second half of 2004, of shareholdings in Austria, Norway, Sweden, and Switzerland. Together with the summaries for 2004 and 2003, figures for these years will also be reported on a same structure basis ("pro forma"), or excluding the subsidiaries sold. Figures for the Belgian and South African subsidiaries have also been included, given that the Belgian subsidiary was sold at the end of the year, while the sale of the South African subsidiary was not finalised until January 2005.

Revenues

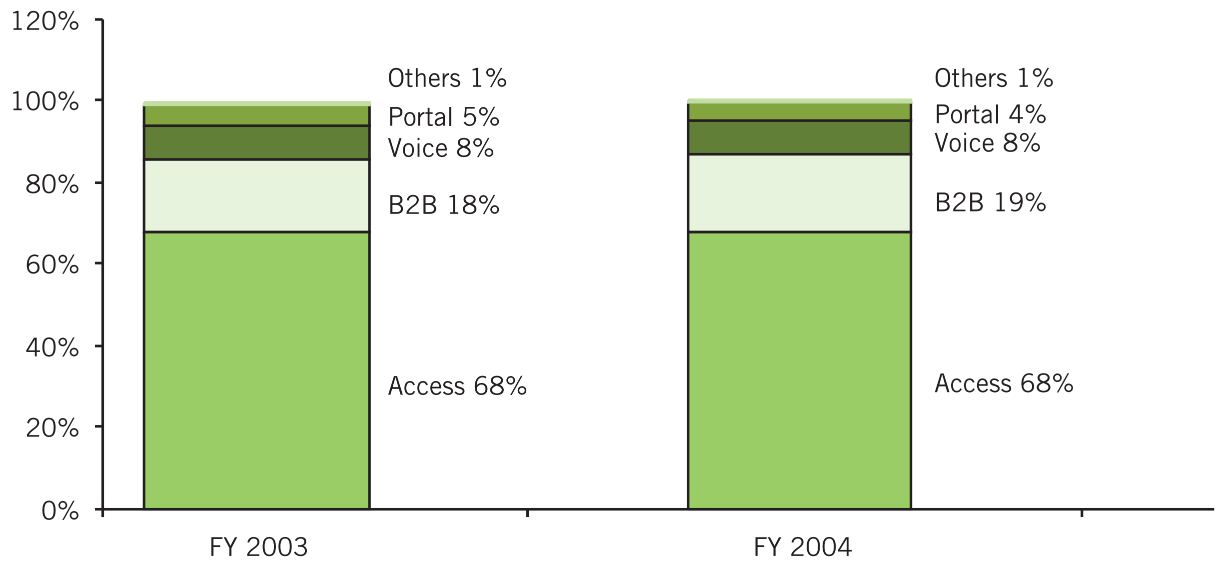
The 2004 financial year saw consolidated revenues of EUR 1,080.6 million, a 20% increase on the consolidated revenues of EUR 901.0 million at 31 December 2003. On a same structure basis this represents a 23% increase in revenues. As indicated in the previous paragraph, growth was driven by revenues from internet access, which has established itself as the primary source of revenues for the Tiscali group, accounting for 68% of the total. This is followed by business services, which account for 19%, voice services, which account for 8%, and portal services, which account for 4%.

Revenues by business area

Revenues by business area

EUR 000			PROFORMA	PROFORMA
	31.12.2004 12 months	31.12.2003 12 months	31.12.2004 12 months	31.12.2003 12 months
Access	730,403	612,933	699,656	571,397
Business	205,951	161,240	189,853	139,645
Voice	88,332	70,394	85,100	69,248
Portal	45,782	47,222	44,640	45,392
Other	10,092	9,233	8,782	8,833
			1,028,031	834,515
Total disposals			**52,529**	**66,507**
Total revenues	**1,080,561**	**901,022**	**1,080,561**	**901,022**

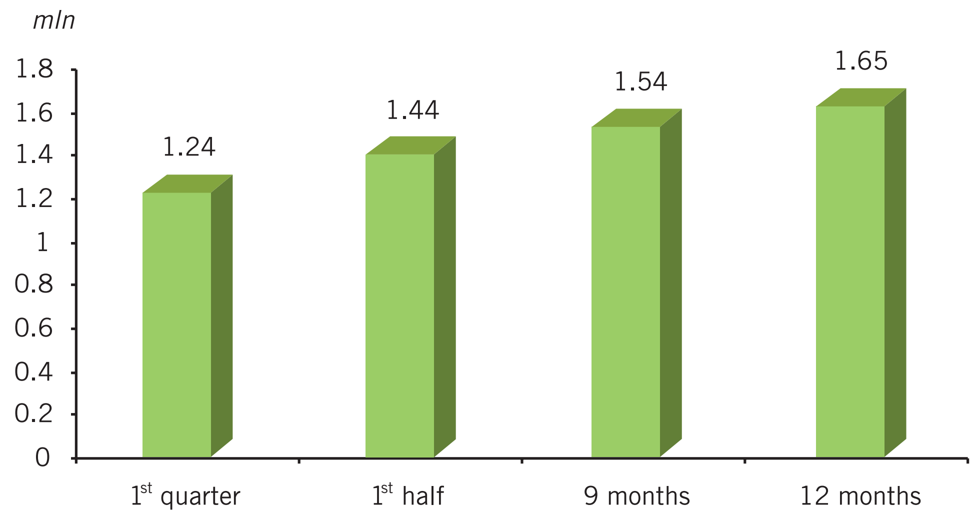
Breakdown of revenues by business line



Access

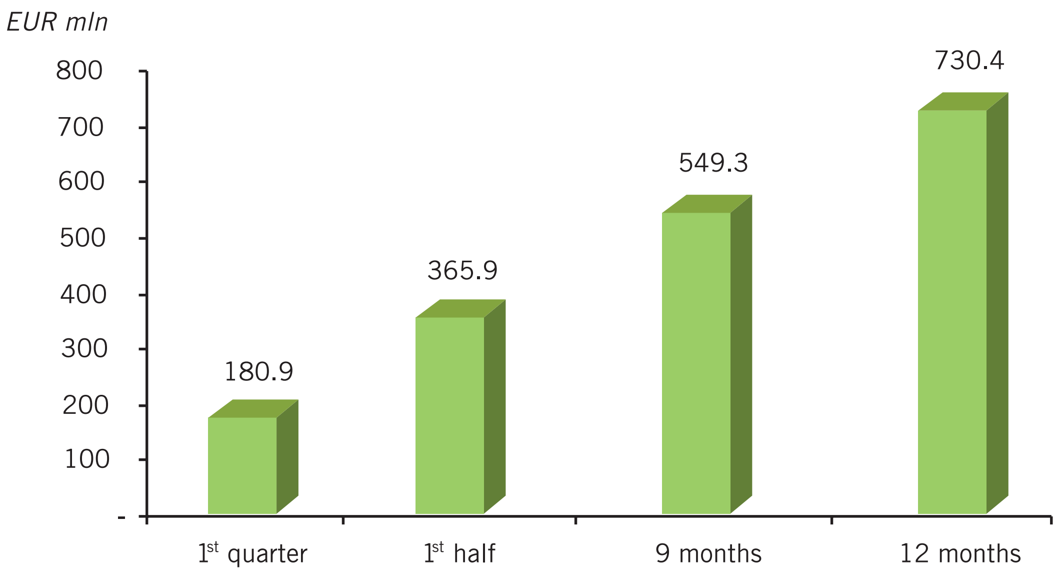
At the end of December there were 1.65 million ADSL users, a considerable advance on the end-2003 figure of 840,000 (+97%). This means a net increase of 813,000 new subscribers. The total of 7.4 million active users includes 5.7 million dial-up customers, around 400,000 of whom are VISP (virtual internet service providers). The number of dial-up users fell compared with the previous year. This was particularly influenced by the change in the basis of consolidation and the migration to broadband services, in line with the group's strategy, which focuses on growth in ADSL unbundled customers in key countries.

ADSL Users Growth



In the second half of the year unbundled services were launched in Italy and France, bringing the number of unbundled ADSL users to around 330,000 at the end of December 2004. With the launch of commercial offers aimed at increasing the take-up of double play (voice and data) services, already available in France and Germany, highly competitive access packages in Italy and the Netherlands, and the imminent launch of additional services and content, we expect an increasing number of customers to migrate from wholesale to unbundled access.

Access Revenues Trend



Revenues generated by the **access** segment, equivalent to 68% of revenues and up 19% on 2003, rose from EUR 612.9 million in 2003 to EUR 730.4 million in 2004. This was despite the deconsolidation of Austria, Norway, Sweden and Switzerland in the second half of 2004. On a same structure basis, access revenues have actually risen by 22%. In line with the group's strategic focus on products offering the best potential for growth and the best profitability, the revenues mix changed during the year, with an increasing emphasis on the ADSL segment.

In this context, and in line with market trends, **dial-up** revenues, equivalent to EUR 417.9 million, fell by 11% to EUR 469.6 million in 2003. On a same structure basis, however, dial-up revenues actually fell by 9%. This decline can be explained by the migration of dial-up customers to ADSL, as well as by the reduction in traffic minutes, which fell from 43.5 billion minutes in 2003 to 35.3 billion in 2004. **ADSL** revenues during the period were EUR 312.5 million, a considerable increase (+118%, or +129% on a same structure basis) on 2003 (EUR 143.3 million). This highlights the increasing importance of ADSL services and the substantial change in the revenues mix within the access segment. Monthly ARPU was basically stable over the year, standing at EUR 20 at the end of December, slightly down on the previous year. This takes into account the particularities of the ADSL market in certain countries.

In the top five countries ADSL access yielded considerable revenues, accounting for 84% of the total. The increase in ADSL user numbers can also be largely attributed to these countries.

In The UK, where the economic conditions for an unbundled network do not yet exist, Tiscali has established itself as the leading ISP for bitstream. This has reduced the company's direct costs by at least 10% compared with the competition, which has adopted the ADSL wholesale approach. The 150 kbps product, priced at GBP 15.99, has been a runaway success, and has led to an explosion in the number of ADSL users. The pricing of this product, comparable with the flat-fee dial-up service, makes it particularly attractive. In the first quarter of 2004, Tiscali had the highest number of new ADSL subscribers in the UK of any operator, including the incumbent.

In France, double play products were not launched until the second half of 2004, following the deployment of the unbundled infrastructure. In 2004 the French market was highly competitive owing to the presence of more than 10 operators in the ADSL consumer segment. Despite this, Tiscali, armed with a significant dial-up user base, established itself as a leading ADSL service provider. At first only wholesale was available, purchased from France Telecom. In the second quarter of 2004, following an agreement with LDCom (an independent operator), bitstream services became available. The first ADSL unbundled service was launched in July, which meant that double play (voice and data) packages could be offered to the market for the first time.

In Italy unbundled access was launched in October 2004. Previously, the group had adopted only the wholesale approach. Italian operations saw an increase in access revenues for the year of 19%, on the back of significant growth in ADSL users and services. In 2005, the company plans to sharpen its focus on growth in broadband services, echoing the market trend. In addition to wholesale ADSL, growth in broadband will also increasingly shift towards shared-access ULL services, which will improve margins. Some 240 ULL sites were active at the end of 2004. By the end of 2005, Tiscali plans to have activated around 400 sites, reaching 30% of the Italian population.

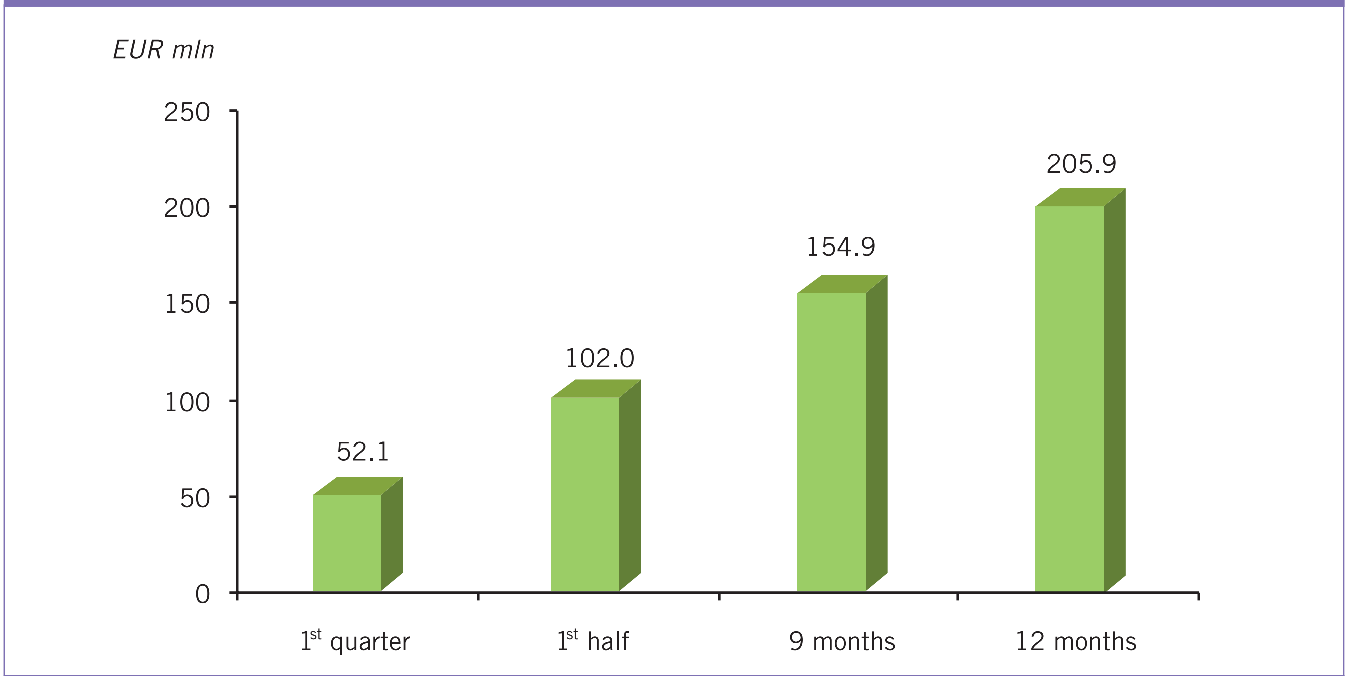
In the Netherlands there was intense migration of ADSL users from wholesale to unbundled access in 2004. Investment in the deployment of the unbundled network infrastructure, which commenced in 2003, was facilitated by the unbundled infrastructure of Baby-XL BV, a company previously acquired. More than 80% of

ADSL users have unbundled access, generating gross profits for Tiscali of over 65%. In this respect, it has been crucial for operations in the Netherlands to migrate ADSL users from the wholesale services of KPN (the incumbent)—which is much more expensive and has a much narrower gross margin—across to Tiscali's network infrastructure. This takes account of the fact that the Dutch market has one of the highest broadband penetration rates in Europe, and that only wholesale and unbundled services are available to independent operators. The Dutch market is also extremely competitive, with a significant presence of cable operators.

Of the major European markets, the ADSL market in Germany is currently the least open to competition because of the delay in deregulation. As a result, the incumbent retains a market share of over 50%. Only in August 2004 was the ULL wholesale segment deregulated, allowing alternative operators to send customers a single invoice.

Business services

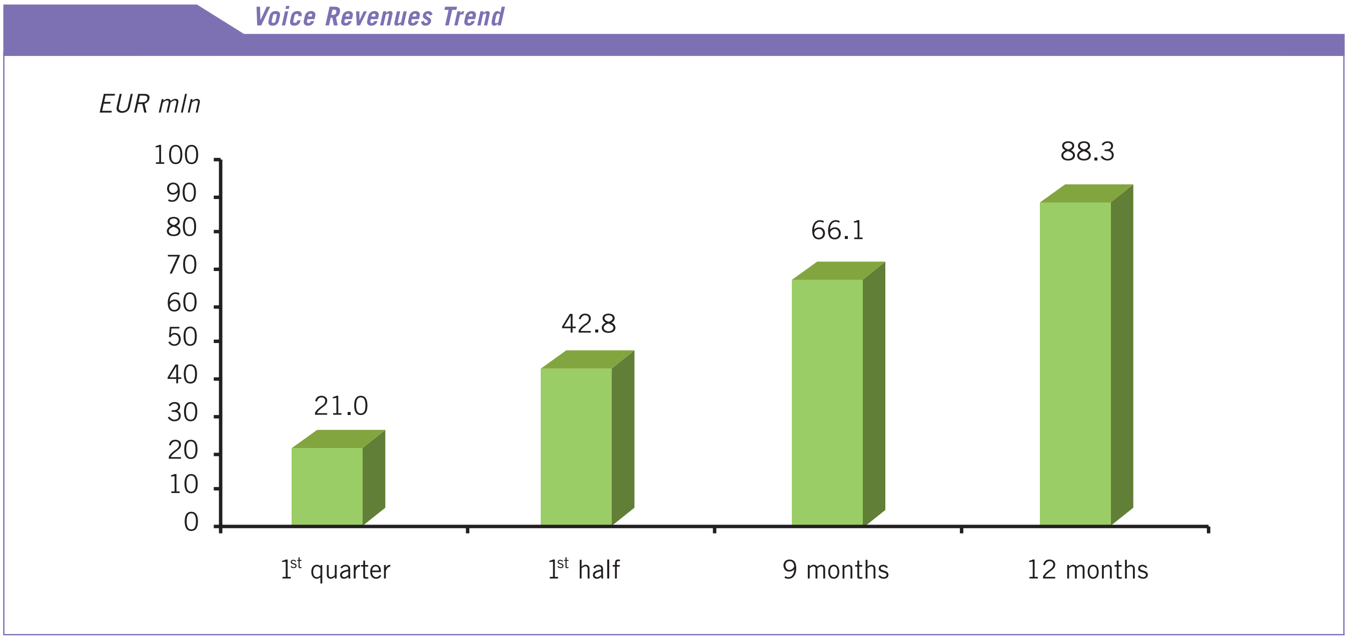
Access Revenues Trend



In 2004 **business service** revenues stood at EUR 205.9 million, up 28% on the EUR 161.2 million in the same period in 2003, owing to the broader range of products and services offered by the group.

Business services accounted for 19% of total revenues, compared with 18% the previous year. On a same structure basis, the increase in revenues was 36%. The increase in revenues was due solely to organic growth, sustained by a commercial refocus and a change in the mix of services offered. Tiscali boasts a wide range of IP services thanks to its international VoIP and IP network. Business service revenues also include revenues generated by ADSL access services and VPN services (EUR 53.1 million). These are responsible for the growth in revenues of this segment, which accounts for around 26% of the total-a 61% increase versus 2003. The growth in revenues was partly offset by the disposal of the Austrian subsidiary, where sales were generated largely by business customers. This figure stood at around EUR 5 million following deconsolidation in the fourth quarter.

Voice services

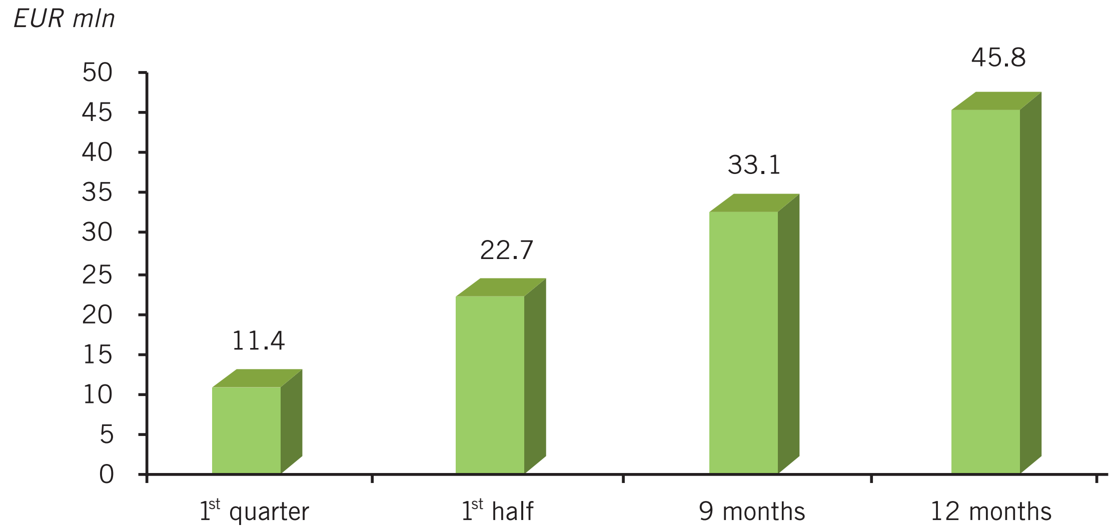


Voice revenues came in at EUR 88.3 million in 2004, a 25% increase on the 2003 figure of EUR 70.4 million (+23% on a same structure basis). The definition of a commercial policy aimed at promoting these services as a complement to the internet package offered to businesses and consumers was the main reason behind the growth in revenues. The proportion of total revenues for this business remained stable at 8% versus the previous year. The increase in revenues was due solely to organic growth, generated by a redefinition of the commercial policy and a change in the mix of services offered, with an increasing emphasis on wholesale telephony services and long-distance calls. Voice services are available in the UK, France and Italy. The launch in the UK of code pre-selection (CPS) services has contributed to the increase in voice revenues, thanks to a straightforward, user-friendly service. In this segment, France and Italy make a significant contribution to revenues from pre-paid telephone cards.

According to Tiscali's strategy, voice services should be viewed as a major opportunity for increasing total ARPU, improving gross profit, establishing customer loyalty, reducing churn rate and creating a solid foundation for the company to acquire a competitive advantage in the expanding VoIP market. The launch of bundled services (conventional voice and ADSL internet access) in The UK in January 2005 forms part of this strategy.

Portal

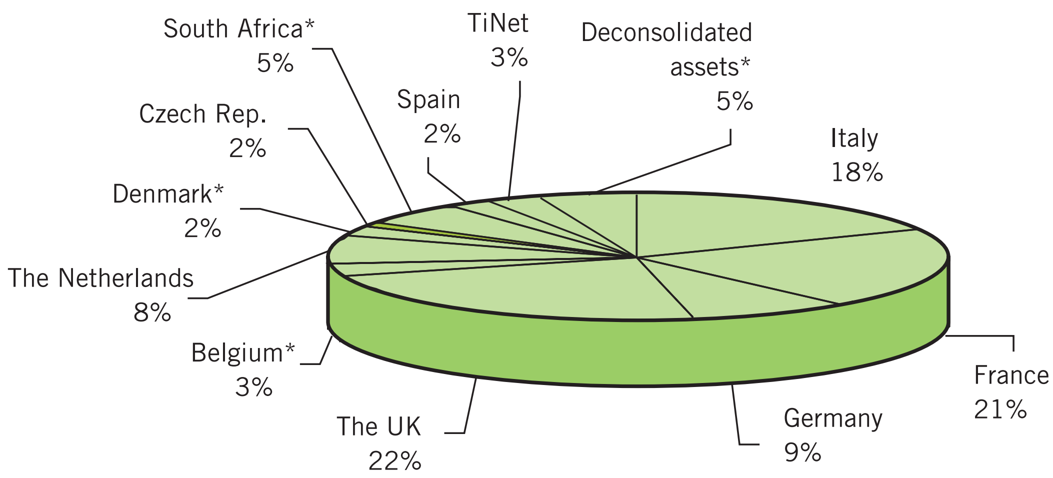
Portal Revenues Trend



In 2004, **portal** revenues, at EUR 45.8 million, accounted for 4% of total revenues. This represented a 3% drop versus the previous year, mainly due to the withdrawal of Tiscali from non-strategic countries. Portal revenues also fell in terms of the contribution to total revenues, from 5% in 2003 to 4% in 2004. At the same time, advertising revenues increased in key countries.

For Tiscali, portal services have always been an effective way of capturing and retaining customers. To date, revenues have mainly been generated by advertising. It is thought that the impact of content and value-added services (VAS)-already available on Tiscali portals, but still with a relatively low impact on revenues-could increase in the next few years, particularly coupled with the increased popularity of ADSL services. The 2004 financial year also saw Tiscali establish itself as one of Europe's leading web properties, with over 23 million unique visitors in December 2004 (Tiscali DWH), a 34% increase on December 2003.

Revenues by country



* *Disposals announced or completed*

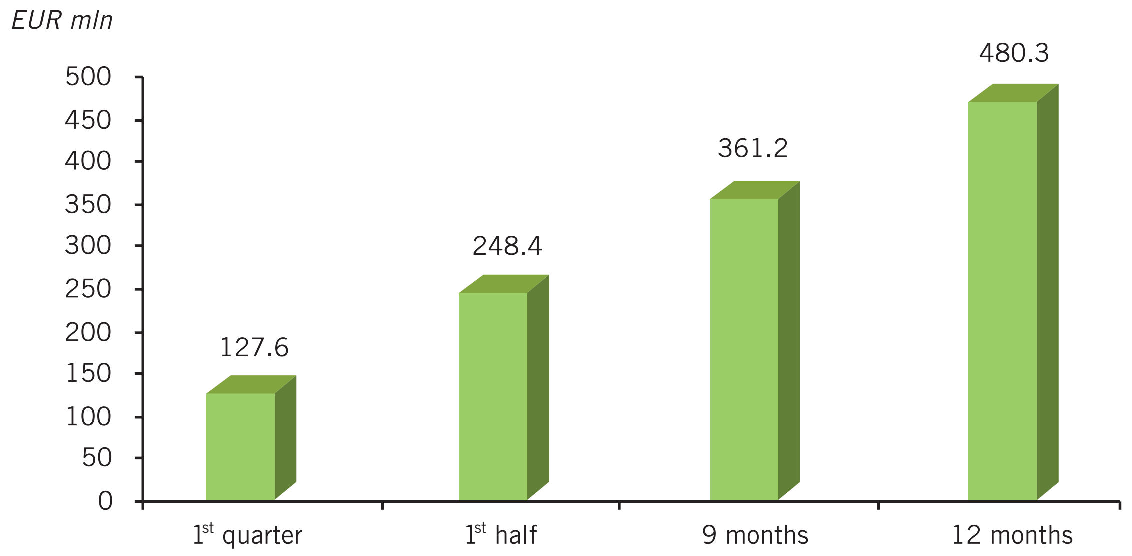
In 2004, the distribution of revenues across the five key markets remained essentially stable, although The UK accounted for a higher percentage than in the previous year (around 22%). Contributions from France (22% in 2003; 21% in 2004), Italy (19% in 2003; 18% in 2004) and Germany (10% in 2003; 9% in 2004) all fell slightly. The strategic plan implemented during the year has led to a rethink of the areas considered strategic, with the focus now on The Netherlands (8% of revenues), rather than on the Benelux region as a whole, given the huge differences between the broadband markets in The Netherlands and Belgium.

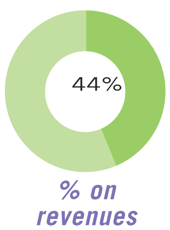
Tiscali International Network BV accounted for 3% of total group revenues. TiNet revenues are generated by selling bandwidth and services to other group companies and other operators. Tiscali International Network is active throughout continental Europe, with offices in France, Spain, Italy and The Netherlands.

Gross profit

EUR 000			PROFORMA	PROFORMA
	31.12.2004 12 months	31.12.2003 12 months	31.12.2004 12 months	31.12.2003 12 months
Gross profit	480,293	455,103	459,382	428,090

Gross Margin Growth





Gross profit for the period was EUR 480.3 million, a 6% increase on 2003 (+7% on a same structure basis). The gross margin was 44%, compared with 51% in 2003. While the margin declined for the year as a whole versus 2003, owing to the narrower profitability of wholesale ADSL services, an important trend reversal took place in the fourth quarter of 2004, endorsing Tiscali's strategy of migrating ADSL users from wholesale tariffs to unbundled services. Although this has been only partly implemented, it promises a healthy financial return for the company.

In 2004, the gross margin was affected by the change in the internet access mix and the increasing importance of variable costs linked to broadband and business services. Implementing an unbundled network infrastructure in The Netherlands, Italy and France has been crucial. This, together with the operating and industrial synergies generated by the implementation and management of its proprietary network, helped Tiscali improve its industrial efficiency in the second half of the year.

The main contributing factors towards this efficiency are:

• synergies in purchasing technical equipment and in management and maintenance

• a considerable saving on the costs of primary network routes and the Metropolitan Area Network (MAN) by signing Indefeasible Right of Use (IRU) agreements

• lower IP transit costs under peering agreements

The gross profit in the access segment during the period was significantly affected by the proportion of wholesale ADSL services provided. The result, while stable, EUR 335.6 million for 2004 (EUR 334.7 million in 2003), fell as a percentage of revenues from 55% in 2003 to 46% in 2004. Following the implementation of the business model linked with the unbundling strategy, the gross profit trend which had characterised the year up to that point was finally reversed in the fourth quarter.

Business services recorded a gross profit of EUR 101.2 million, up 22% compared with the previous year's figure of EUR 83.2 million. The gross margin narrowed slightly, from 52% in 2003 to 49% in 2004. The benefits obtained from the group's integration process and the deployment of the international network infrastructure were partly offset by the additional structural/operating costs arising from the increasing importance of VPN broadband services, VISP and hosting services compared with leased line services.

The gross profit on voice services of EUR 19.5 million was up 28% on 2003 (EUR 15.3 million). The gross margin, at 22%, was essentially stable compared with the previous year. This was possible thanks to the restructuring of voice services management and the benefits of launching other services, such as wholesale voice services, code pre-selection (CPS) and prepaid telephone cards for long-distance calls. Furthermore, bundled products contribute significantly to improving the gross margin on voice services, demonstrating that there are numerous synergies with both dial-up and broadband access.

Portal services saw a decline in gross profit of 10%, from EUR 23.8 million in 2003 to EUR 21.5 million in 2004. The gross margin deteriorated from 50% in 2003 to 47% in 2004. This was due to the high proportion of fixed and semi-fixed costs linked to Tiscali's portal management. The result was also affected by a slight downturn in sales.

Operating costs

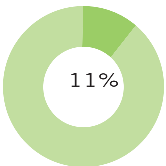
In 2004, operating costs totalled EUR 371.5 million, down from EUR 380.4 million in 2003 (essentially stable on a same structure basis). These costs accounted for a lower percentage of revenues in 2004, at 34% versus 42% in 2003. This result, together with the deconsolidation of certain subsidiaries, is due to the lower proportion of fixed costs and a redefinition of the marketing strategy and its timing.

Operating costs

EUR 000			PROFORMA	PROFORMA
	31.12.2004 12 months	31.12.2003 12 months	31.12.2004 12 months	31.12.2003 12 months
Marketing costs	123,610	140,000	120,972	134,518
Personnel costs	156,641	142,104	147,001	126,254
Fixed costs	91,220	98,293	85,099	90,080
Operating costs	371,471	380,397	353,072	350,852

The main contributing factors towards the streamlined operating costs are as follows.

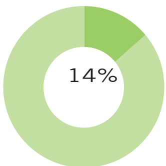
Marketing costs



% on revenues

In 2004, marketing costs totalled EUR 123.6 million (11% of revenues,) down on the EUR 140.0 million recorded in 2003 both in absolute terms (-12%) and as a percentage of revenues (16%). On a same structure basis marketing costs fell by 10%. This fall was due to the redistribution and refocus of marketing investments. In previous financial years, Tiscali invested resources in building and upgrading its brand at European level. Its powerful European branding has helped the company achieve critical mass in terms of subscribers, for both dial-up and ADSL services. This has allowed it to lower sales and marketing costs and to channel resources towards new ADSL products. Marketing operations during the year were targeted and direct, supported by radio, press and billboard advertising. Furthermore, all marketing operations are supervised globally, but managed locally in each country.

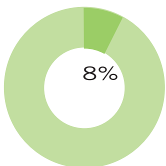
Personnel costs



% on revenues

Personnel costs were up 10%, from EUR 142.1 million in 2003 to EUR 156.6 million at the end of 2004. These costs fell, however, as a proportion of revenues, to 14%, from 16% in 2003. On a same structure basis personnel costs rose by 16%, from EUR 126.3 million in 2003 to EUR 147.0 million in 2004 (14% of revenues in 2004, versus 15% in 2003). Despite accounting for a low proportion of revenues, the rise in personnel costs should be viewed in the context of the business strategy, which has dictated the need for new skills and roles to be introduced into the workforce. In particular, the development of unbundled ADSL packages requires additional technical expertise and more specialist skills. The number of employees at 31 December 2004 was 3,137, compared with 3,226 at end-2003.

General and administrative costs

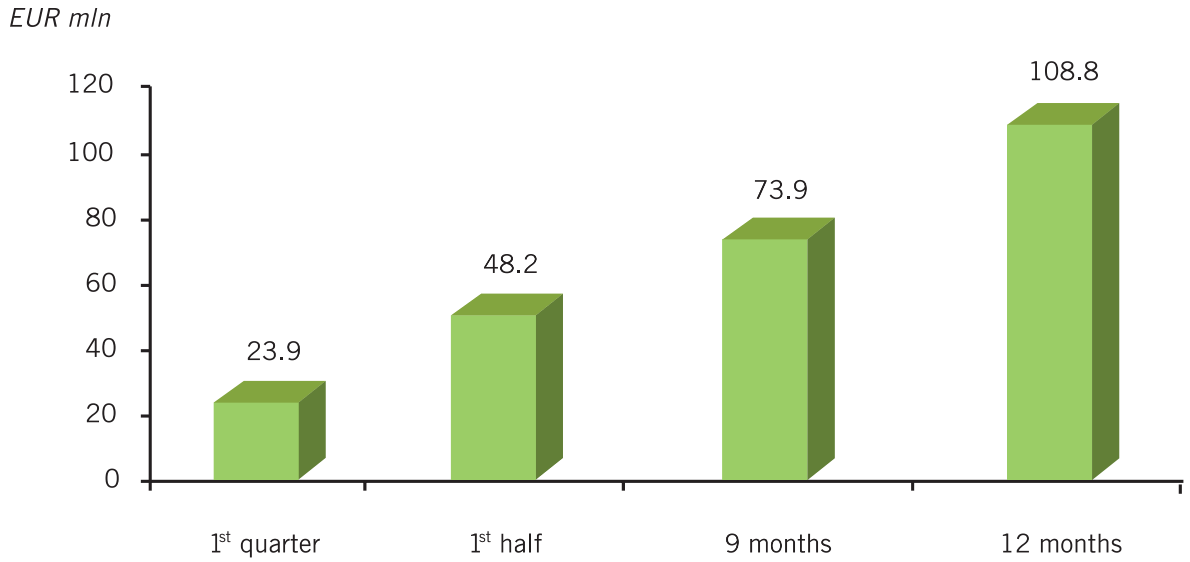


% on revenues

General and administrative costs totalled EUR 91.2 million in 2004, down 7% (-6% on a same structure basis) compared with EUR 98.3 million in 2003. The proportion of revenues fell to 8%, from 11% in 2003. This was due to rationalisation, and more specifically to lower travelling, consultancy and occupancy costs.

EBITDA

EBITDA Growth



EUR 000			PROFORMA	PROFORMA
	31.12.2004 12 months	31.12.2003 12 months	31.12.2004 12 months	31.12.2003 12 months
Gross operating profit	108,822	74,706	106,311	77,238

EBITDA for 2004 was EUR 108.8 million, up 46% on 2003 (EUR 74.7 million), or 38% on a same structure basis. This shows that in 2004 profitability improved across all group companies. The EBITDA margin also improved significantly, from 8% in 2003 to 10% in 2004. This result reflects the reduction in operating costs, and sales and marketing costs in particular.

Depreciation, amortisation, and provisions for the year totalled EUR 228.4 million, compared with EUR 303.6 million in 2003.

Depreciation of tangible assets totalled EUR 83.4 million, versus EUR 94.9 million in 2003. Amortisation of intangible assets was EUR 121.7 million, versus EUR 131.7 million in 2003. Goodwill amortisation (consolidation differences) was EUR 51.2 million, versus EUR 72.1 million in 2003.

Furthermore, in 2004, "other provisions and write-downs” fell to EUR 23.3 million, compared with EUR 76.9 million in 2003.

EBIT

The group made an **EBIT** loss of EUR 119.6 million, a marked improvement (+48%) on the loss of EUR 228.9 million posted the previous year.

Pre-tax loss

The pre-tax loss (**EBT**) at 31 December 2004 was EUR 269.1 million, a substantial improvement on 2003 (EUR -295.6 million). This was influenced significantly by extraordinary items, as well as by net financial charges (EUR 37 million at 31 December 2004, mainly related to interest on bonds). Net extraordinary charges totalled EUR 112.6 million, mainly because of provisions of around EUR 44 million established to cover losses from the sale of Tiscali International Network (see "Events taking place after the end of the financial year"), together with the losses forecasted from other disposals in 2005. Notably, the significant capital gains (of around EUR 150 million) from the sale in 2005 of Liberty Surf Group were not included in the 2004 accounts. Net extraordinary charges also include the EUR 17 million loss arising from the sale of another shareholding (Switzerland), and the write-down of intra-group transactions in relation to the companies sold, giving a net capital loss of around EUR 17 million. These capital losses are more than offset by the capital gains realised on the disposal of companies in Austria, Belgium, Sweden and Norway (EUR 55.6 million). A large part of these extraordinary items also consists of charges in respect of the rationalisation and restructuring process carried out as part of the strategic plan implemented in 2004.

Net loss

The net loss, taking into account deferred tax credit for the parent company and UK operating subsidiaries of EUR 110.7 million, totalled EUR 161.4 million, a 34% improvement on the net loss of EUR 245.9 million recorded the previous year.

Group assets and financial position

Assets

EUR 000	31.12.2004	31.12.2003
Current assets		
Cash, banks and securities listed as current assets	128,413	203,544
Receivables from customers	150,150	173,152
Accrued income and deferred charges	152,081	90,912
Other current assets	167,655	157,592
Total current assets	**598,299**	**625,200**
Non-current assets		
Technical assets	217,829	246,550
Intangible assets	579,173	715,903
Investments and securities	15,883	13,327
Other non-current assets	96,815	60,281
Total non-current assets	**909,700**	**1,036,061**
Total assets	**1,507,999**	**1,661,261**

Liabilities and shareholders' equity

EUR 000	31.12.2004	31.12.2003
Short-term liabilities		
Banks	25,747	37,992
Other financial payables	250,387	81,184
Payables to suppliers	291,285	310,647
Other payables	96,799	75,923
Accrued liabilities and deferred income	167,132	153,271
Total current liabilities	**831,350**	**659,017**
Medium-/long-term liabilities		
Loans	245,974	493,003
Staff severance fund	10,810	10,850
Other funds for risks and future liabilities	22,141	27,011
Other medium-/long-term liabilities	81,952	45,824
Total medium-/long-term liabilities	**360,877**	**576,688**
Minority interests	**4,593**	**6,336**
Total liabilities	**1,196,820**	**1,242,041**
Shareholders' equity		
Share capital	196,619	184,460
Reserves	274,026	477,208
Net loss	(159,466)	(242,448)
Total shareholders' equity (group)	**311,179**	**419,220**
Total liabilities and shareholders' equity	**1,507,999**	**1,661,261**

Net debt

At the end of 2004, the Tiscali group had cash or cash equivalents worth EUR 204.2 million, while net debt, excluding loans due to shareholders of EUR 32.5 million, stood at EUR 359.6 million.

The following table contains details of financial resources and debt at 31 December 2004, and the difference compared with 31 December 2003.

Capital Structure

EUR million	31 DECEMBER 2004	31 DECEMBER 2003
Cash	128.4	203.5
Other financial assets	75.8	129.0
including		
Term deposits held as security	25.8	51.8
Tax credits and other financial assets*	49.9	77.2
Total cash and cash equivalents	**204.2**	**332.5**
Bonds due in 2004	-	(80.3)
Bonds due in 2005	(250.0)	(250.0)
Bonds convertible in 2006	(209.5)	(209.5)
Other bonds	(0.4)	(0.8)
Total bonds	**(459.9)**	**(540.6)**
Loans and other long-term debt	(36.5)	(33.5)
Other short-term financial liabilities	(25.7)	(38.0)
Total payables to banks	(62.2)	(71.5)
Leasing	(41.7)	(43.5)
Gross debt	**(563.8)**	**(655.6)**
Net debt	(359.6)	(323.1)

** Mainly VAT credits*
Financial debt does not include loan payments due to shareholders

The table below illustrates the net debt position at 31 December 2004.

Group net debt

EUR 000	31 DECEMBER 2004	31 DECEMBER 2003
Cash and cash equivalents	204,200	332,563
Short-term bank and other financial debt	(48,269)	(53,186)
Bonds	(250,387)	(81,184)
Short-term financial position	**(94,456)**	**198,193**
Medium and long-term bank and other financial debt	(55,625)	(61,860)
Bonds	(209,500)	(459,500)
Net debt	**(359,581)**	**(323,167)**

The reduction in cash and cash equivalents is due to the repayment in July 2004 of the residual portion of the bonds issued by Tiscali Finance SA, as well as financial requirements linked with operating activities. In the second half of 2004 the completion of the initial phase of the disposals programme for non-strategic subsidiaries also generated receipts of around EUR 45 million.

In terms of cash and cash equivalents, there was also a reduction in other financial assets and restricted accounts, mainly due to the definition of underlying constraints and the tax credits (mainly VAT credits) owed to various companies within the Tiscali group.

In terms of debt, except for the repayment of the bond in July 2004, there were no significant changes. The "other creditors" item (leasing) was essentially stable, even taking into account the agreement finalised in 2004 with Cisco, one of Tiscali's main "technical" suppliers. For more information concerning bonds as at 31 December 2004, please refer to the relevant section of the notes to the accounts.

In 2004, cash flow from operations before investments was positive, at EUR 39.5 million. This consists of:

EUR 000	AMOUNT
Gross operating profit (EBITDA)	108,822
Bad debt provisions	(22,629)
Change in current assets (*)	(46,617)
	39,576

(*) Figures include the change in accrued and deferred income

Cash flow from operations for the year, excluding investments in property, plant and equipment and intangible assets (increases), was negative at EUR 128.6 million (or EUR 61.5 million, considering investments of EUR 101.1 million that resulted in a cash outflow). Therefore, this figure was significantly affected by investments made during the year to support the expansion of ADSL services (ULL).

The total amount of cash used during the period, calculated as a change in net debt (see related table), was EUR 36.5 million, taking account of non-recurring items, such as the repayment of the outstanding bond due in July 2004 (EUR 80.3 million), the capital increase carried out at the end of the year (EUR 45.9 million) and proceeds from the sale of non-strategic shareholdings (around EUR 45 million). Changes in net debt and the consequent release of capital were also affected by the substantial extraordinary charges incurred during the year.

It is particularly significant in this respect that in the fourth quarter of 2004, the Tiscali group, as previously mentioned when the figures for the period were announced, posted positive cash flow from operations for the first time of around EUR 7 million, before extraordinary items but net of investments and financial expenses.

The marked improvement is mainly due to management performance during the year (described in the previous paragraph), as well as to effective management of working capital.

Net financial expenses accrued in 2004 totalled EUR 37.6 million, mainly as a result of existing bonds.

For further information on these items, please refer to the notes to the accounts and the corresponding financial statements.

Current assets

At 31 December 2004, receivables from customers totalled EUR 150.2 million, a reduction compared with end-2003. The decrease was due to the change in the basis of consolidation and to the improvement in cash flow management.

Because of the growth in revenues from sales of ADSL services, a significant increase in accrued income and deferred charges was recorded.

Current assets also include other receivables, such as deferred tax assets, which are expected to be used in the next financial year.

Non-current assets

The most significant non-current asset is the consolidation difference/goodwill of EUR 393.1 million at 31 December 2004. Capital invested in non-current assets also includes property, plant and equipment (which consist mainly of network installations and equipment) and other intangible assets, such as investments in network infrastructure, represented by IRU agreements.

For information on investments during the period, please see the relevant section below.

Investments

In 2004, investments in property, plant and equipment and intangible assets totalled EUR 168.1 million, or 16% of revenues. Investments in tangible assets totalled EUR 86.3 million, mainly because of the acquisition of equipment (servers and routers) necessary for the deployment and maintenance of network infrastructure. Investments in intangible assets totalled EUR 81.8 million, mainly because of the signing of new IRU contracts, which predominantly consisted of new user licenses for acquiring capacity. Investments in intangible assets also included a large number of software licences, necessary to improve the quality of service offered and to support the growth in internet traffic.

The increase in investments in 2004, compared with 2003, is essentially due to the building of the infrastructure necessary to support the ADSL unbundled offer in Italy, France and the Netherlands. Investment in the deployment of the network infrastructure needed to support the ADSL unbundled offer totalled EUR 64 million.

In France, investments in the development of unbundled services totalled EUR 18 million, enabling 10 towns and 146 local exchanges to be reached. ADSL lines represent 53% of the potential ADSL market.

In Italy investments totalled approximately EUR 60 million, enabling 15 towns and 240 local exchanges to be reached. ADSL lines represent 23% of the potential ADSL market.

In The Netherlands investments totalled approximately EUR 16 million, enabling 26 towns and 231 local exchanges to be reached. ADSL lines represent 58% of the potential ADSL market.

Research and development

Tiscali's research and development centres on the development of operating software, recognised as intangible assets under the appropriate heading. These activities are carried out as part of projects to develop the technological access platform and manage the Tiscali network, mainly in relation to broadband.

Current liabilities

Short-term liabilities, except for those relating to net debt (see above), have not changed significantly from the previous year. In particular, taking account of the increased volume of business and the reduction in the basis of consolidation, payables to suppliers remained stable. The increase in accrued liabilities and deferred income, together with the corresponding entry under assets, takes into account the increased importance of ADSL services and the related method of accounting for these.

Results and operating performance of the parent company

In 2004 the parent company's revenues totalled EUR 202.6 million, an increase of 12% on the previous year. There was growth across all business areas. In particular, total internet access revenues rose by 18%, owing to the significant rise in the number of customers subscribing to ADSL services via unbundled shared access, particularly in the second half of the year. The increase in access revenues is also due to the gradual migration of dial-up traffic to a single national number. During the year, an increased contribution from voice services was recorded; following the re-launch at the end of 2003, this led to a 15% rise in revenues.

In 2004, EBITDA showed signs of improving, at EUR -6.8 million, versus a loss of EUR 7.6 million in 2003. The gross operating result is significantly trongly influenced by the weight of corporate divisions. Italian operations alone saw a marked improvement in EBITDA (+50%), at around EUR 15 million in 2004 versus some EUR 10 million in 2003.

The net loss of EUR 489.8 million was mainly caused by the write-down of shareholdings (described in more detail in the notes to the parent company's accounts), and by the recording of a deferred tax credit of EUR

45 million. Excluding financial and non-recurring operations, there was a marked improvement in EBIT, from a loss of EUR 73 million in 2003 to a loss of EUR 48 million in 2004.

The following table contains a summary profit and loss account for the year.

Profit and Loss account

EUR million	31.12.2004	31.12.2003
Revenues	202.6	180.3
Operating costs	(209.4)	(187.9)
EBITDA	(6.8)	(7.6)
Depreciation and provisions	(38.0)	(66)
EBIT	(44.8)	(73.6)
Net financial income (charges)	(2.4)	(2.3)
Net extraordinary charges	(18.7)	3.2
Write-downs	(468.9)	(41.8)
Pre-tax (loss)	(534.8)	(114.5)
Deferred taxes	45.0	0
Net loss	**(489.8)**	**(114.5)**

Breakdown of parent company revenues

Revenues

EUR million	31.12.2004	31.12.2003
Access	118.6	99.8
Portal	10.4	14.0
B2B	11.8	8.4
Voice	33.8	29.5
Other	28.0	28.6
Total	**202.6**	**180.3**

Access

Internet access revenues came in at EUR 118 million (58% of total revenues), up 19% on the previous year.

This increase was due to the growth in ADSL user numbers and the continuing migration of dial-up customers to the single national number, which generates far higher average revenues per minute than “pay per use”. Dial-up revenues were around EUR 80 million, largely stable compared with the previous year. The number of active dial-up users is equivalent to around EUR 1.3 million (versus EUR 1.4 million at the end of 2003). During the year, traffic minutes were essentially stable compared with the previous year (despite the gradual change in the revenues mix), totalling approximately 8 billion, compared with 8.7 billion in 2003. The decrease both in terms of minutes and users is explained by growth in the ADSL market.

ADSL revenues totalled EUR 39 million, versus EUR 16 million in 2003, an increase of 144%. The number of ADSL users rose from approximately 108,000 at the end of 2003 to more than 200,000 at the end of 2004. It is important to note that ADSL unbundled services were launched in October, and by the end of December around 20,000 ADSL customers were receiving unbundled services.

Portal

Portal revenues (advertising and e-commerce) totalled EUR 10.4 million, equivalent to 5.1% of the total, compared with 7.7% in 2003 (EUR 14 million). The decrease is due to the elimination of bounty services in order to purchase space to promote Tiscali products and services.

Despite the fall in revenues, the Tiscali portal has established itself as one of the market leaders in terms of advertising, and is one of the leading Italian web properties. In December 2004 alone, the **www.tiscali.it.** portal registered more than 4.5 million unique visitors.

B2B – business services

Revenues from business services totalled EUR 11.8 million, up 40% compared with the previous year (EUR 8.4 million). This increase is attributable to the completion of public sector projects.

Voice

Voice revenues totalled EUR 33.8 million, up 15% compared with 2003 (EUR 29.5 million). The rise is mainly due to residential voice services, following a re-launch. The growth in residential voice services (+100%) more than offset the decrease in wholesale voice services (-28%).

Operating costs

Operating costs stood at EUR 209 million, an increase of 11% on 2003 (EUR 188 million).

More specifically, compared with 2003, the cost of leased lines and portals rose by 30%, while the cost of traffic acquisition fell by 8% following the reduction in wholesale voice traffic.

As a proportion of revenues, these costs increased from 40% in 2003 to 43% in 2004. The increase is attributable to the growth in broadband services, and in particular to the related amount of wholesale costs.

Sales and marketing costs have fallen significantly thanks to the rescheduling of the launch of advertising campaigns. In addition, these costs were particularly high in the previous year, when ADSL services were launched. The launch of new unbundled shared access services has entailed substantial advertising costs.

Personnel costs rose by EUR 4.9 million (+15%) to EUR 37.9 million in 2004 (18.6% of revenues, versus 18.3% in 2003). This increase is explained by the expansion of the workforce from 861 employees at 31 December 2003 to 876 at 31 December 2004. These costs also include personnel dedicated to holding company operations. A combination of workforce expansion, wage increases and the end of lower rates for social security contributions contributed to the increase.

Depreciation, amortisation, and provisions fell significantly compared with the previous year, from EUR 52 million in 2003 to EUR 38 million in 2004. The figure relates to the depreciation of tangible assets and amortisation of intangible assets totalling around EUR 32 million, and to the write-down of receivables entered as current assets of EUR 5.8 million.

The negative net financial income figure (EUR -2.7 million) mainly relates to bank interest and charges. Compared with 2003, no significant changes were recorded. Adjustments to financial assets (representing a cost of EUR 468.9 million) include a write-down of shareholdings, specifically WorldOnline Int. NV and Liberty Surf Group SA.

Finally, net profit (EUR 489.8 million) includes the recording of EUR 45 million deferred tax credit.

Financial position and assets of the parent company

Reclassified balance sheet

EUR million	31.12.2004	31.12.2003
Non-current assets	1,670.7	2,123.0
Current assets	264.2	215.1
Total assets	**1,934.9**	**2,338.1**
Shareholders' equity	1,147.7	1,576.6
Risk funds and staff severance fund	25.7	27.7
Liabilities	761.5	733.8
Total liabilities and shareholders' equity	**1,934.9**	**2,338.1**

Total non-current assets were stable at EUR 2.1 million. The growth in current assets can be explained by the cash assets acquired with the capital increase. The financial structure remained essentially stable.

Net Debt

EUR 000	31.12.2004	31.12.2003
Cash and cash equivalents	48,915	3,718
Short-term bank debt	(24,113)	(31,820)
Short-term financial position	**24,802**	**(28,102)**
Medium-/long-term debt	(30,620)	(31,946)
Net debt	**(4,979)**	**(60,048)**

Net debt showed a marked improvement compared with 31 December 2003, owing to the capital increase operation carried out at the end of the year.

The short-term financial position at 31 December 2004 was positive at EUR 24.8 million, versus a debt of EUR 28.1 million at 31 December 2003. Including medium- and long-term bank debt, however, the figure was EUR -4.9 million, versus EUR -60.6 million at 31 December 2003.

The financial position, illustrated in detail in the parent company's accounts, was influenced by operations, financial, extraordinary and investment activities.

Disposals plan for non-strategic assets

In the second half of 2004 the Board of Directors approved the plan for the disposal of non-strategic assets, i.e. shareholdings in “non-core” countries. In line with the disposals programme and the strategic refocus of the group’s activities in markets offering most potential for value creation, the subsidiaries in Austria, Norway, Sweden, South Africa, Switzerland and Belgium were sold, together with marginal activities in Luxembourg and Finland. These sales are described below.

On 16 August 2004, Tiscali sold its **Austrian subsidiary**, Tiscali Österreich GmbH, to Nextra Telecom GmbH (an Austrian company belonging to the Jordan Industries group), for EUR 12 million. The operation generated a capital gain of EUR 6.4 million.

On 20 August 2004, Tiscali agreed to sell its **South African subsidiary**, Tiscali (Pty) Ltd, to MWEB, a South African internet service provider and a subsidiary of MWEB Holdings (Pty) Ltd. The transaction was completed in February 2005, following the green light given by the South African competition authority. The agreed price of ZAR 320 million (around EUR 40 million) was paid in cash on completion of the sale.

On 12 January the South African regulator also gave the green light for the sale of Tiscali’s South African mobile telephone operations to Vodacom Service Provider Company Ltd, as announced on 19 October 2004, for EUR 5.3 million. The capital gain of EUR 25.7 million arising from the disposal of South African operations will be booked in 2005, to reflect the date on which the transaction was finalised.

On 23 August 2004, Tiscali sold its **Norwegian subsidiary**, Tiscali AS, to Telenor Telcom Solutions AS, a subsidiary of Telenor ASA (TEL, Oslo Stock Exchange, NASDAQ) for NOK 49.9 million (around EUR 6 million), realising a capital gain of EUR 3.2 million.

On 30 August 2004, Tiscali agreed to sell its **Swedish subsidiary**, Tiscali AB, to Spray Network AB, a subsidiary of Lycos Europe. The purchase price of SEK 120 million (around EUR 13 million) was paid in cash once the transaction was approved by the Swedish competition authorities. The sale generated a capital gain of EUR 11 million.

On 16 September 2004, Tiscali sold its **Swiss subsidiary**, Tiscali AG, to the Swiss ISP Smart Telecom AG for CHF 8 million (around EUR 5.3 million), realising a capital loss of EUR 17 million.

On 29 November 2004, Tiscali announced that it had agreed to sell its **Belgian subsidiary**, Tiscali NV, to Scarlet Belgie Holding BV. On 24 December, after receiving approval from the Belgian competition authorities, the sale was agreed for EUR 19 million in cash, producing a capital gain of EUR 9.3 million.

The disposals were accompanied by the standard guarantees issued by Tiscali to buyers.

Extraordinary operations

Capital increase following the settlement with Jean-Philippe Illiesco De Grimaldi

In the first half of the year, a settlement was agreed in respect of disputes pending in the Netherlands between WorldOnline International NV and Tiscali International BV, on the one hand, and Jean Philippe Illiesco de Grimaldi and subsidiaries Globetrans Ltd and Interglobetrans Ltd, on the other. Under the settlement, Jean Philippe Illiesco de Grimaldi was to receive EUR 3,250,000 in the form of newly-issued Tiscali SpA shares reserved for him. On 22 June 2004, the Tiscali shareholders' meeting approved the issue of 919,378 Tiscali shares for this purpose. Once the transaction was finalised, over EUR 21 million in cash assets held on deposit could be released.

Capital increase subscribed by Société Générale

On 30 December 2004 the capital increase approved the previous June by the shareholders' meeting of Tiscali SpA, was partially implemented. This amounted to a capital increase, excluding pre-emption rights, of up to 10% of the existing capital.

Société Générale subscribed for 18.4 million new Tiscali shares totalling EUR 50 million. Under the terms of the transaction, the bank was not subject to any conditions regarding subsequent sale of the shares.

The subscription price was EUR 2.721 per share; this is some 95.94 per cent of the benchmark price registered on the Nuovo Mercato on 28 December 2004.

Liberty Surf loan

In June the French subsidiary Liberty Surf granted Tiscali SpA a loan of EUR 30 million at market rates, with a view to optimising its cash management, in line with the intra-group loan procedures.

Part of this loan was repaid in the second half of 2004, and the remainder in the first quarter of 2005.

Shareholder loans

In 2004 the shareholders Andalas Limited and Emasan AG (Sandoz Family Foundation) granted loans of EUR 27.5 million and EUR 5 million respectively (or EUR 32.5 million in total). The loans were granted at a time of intense growth to support Tiscali's refinancing strategy and to allow the necessary investment in the unbundled network infrastructure.

Ongoing disputes

Legal disputes

The Tiscali group is involved in a number of legal disputes. The group's management does not believe that these disputes will give rise to significant liabilities, or that an unfavourable outcome will have a significant negative impact on its financial position, assets, or economic position, or on future income from operations.

Below is a summary of the main disputes pending as of December, 2004.

In July 2001 the Dutch foundation Vereniging van Effectenbezitters, which represents a group of former minority shareholders of World Online International NV, made a claim for unspecified damages against World Online (currently 99.5% owned by Tiscali) and against the financial institutions involved in its stock market listing, alleging, in particular, that some of the information provided in the IPO prospectus and in 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 sufficiently clarify comments made by its former chairman at the time of the listing regarding her own shareholding. World Online appealed against this decision, claiming that 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. A similar dispute was initiated by another Dutch foundation, Stichting Van der Goen WOL Claims, in August 2001. No provisions have been set aside in the group's accounts for this dispute, given the low probability of a liability being incurred, and the unknown nature of the potential amount.

Tax inspections

The Dutch tax authorities have investigated the suspected non-payment of income tax on a combined salary and share package allegedly paid to James Kinsella, the former CEO of World Online International BV. The tax authorities argued that anything received by Mr Kinsella, and not by other former World Online employees, was a taxable bonus in return for Mr Kinsella waiving his subscription right to World Online shares in December 2000. The Dutch tax authorities calculated the liability that might arise from the alleged non-payment as EUR 40 million, taking account of the value of Tiscali's shares at the time. It does not appear at this stage that any formal notice has been issued regarding this amount. To settle the dispute, sufficient documentary evidence must be furnished, in a manner deemed appropriate by the local tax office, to show that Mr Kinsella did not receive payments and/or Tiscali shares in return for waiving his preemption right. It is emphasised that Tiscali was unaware of any such transaction, and is therefore under no obligation to pay tax, since it is not involved. Tiscali's Directors, having taken the advice of the group's tax consultants, do not believe any significant liabilities will arise at this time and therefore feel that no provisions need to be set aside to cover this risk, which is thought to be low.

The Dutch tax authorities are investigating the position of Tiscali International BV and its subsidiaries as regards direct taxes and VAT, and the German authorities are inspecting the German subsidiaries as regards VAT. The latter inspection, which began in 2004, led to a dispute that was settled during the year by payment of EUR 8.5 million, recorded as an extraordinary charge. The inspection is continuing, but no factors have emerged to suggest that significant liabilities will arise.

In 2004 the case file opened by the Cagliari revenue office was closed, following the tax audit carried out by customs officers the previous year and completed on 12 December 2003. Inspections carried out in 2001 and 2002 resulted in the company paying EUR 70,000 for a VAT underpayment identified by customs. Unpaid direct taxes did not lead to any reduction in cumulative tax losses as at 31 December 2002.

Transition to IAS/IFRS

Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards sets out that, with effect from the accounts for the year ended 31 December 2005, European companies listed on a European regulated market must prepare their consolidated financial statements in accordance with international accounting principles (IAS/IFRS).

On 30 December 2003 the Committee of European Securities Regulators (CESR) published a recommendation addressed to the European regulators detailing information to be disclosed to the market by listed companies during the transition to IAS/IFRS. In accordance with the CESR recommendation, the international accounting principles should be implemented by the 2005 interim accounts.

CONSOB, in the consultation paper entitled “International Accounting Principles: periodic financial statements, prospectuses, IPO prospectuses/investor information and definition of the concept of related parties”, published on 17 February 2005, described a temporary system for the first two results releases in 2005.

In this context, and as requested by CONSOB Communication No DME/5015175 of 10 March 2005, the following information is provided relating to procedures for the transition to IAS/IFRS.

Implementation status of the new procedures

Tiscali has appointed a special task force (specialising in accounting, management control, operating processes, and information systems) to assess the impact of the introduction of IAS/IFRS at group level. The evaluation and diagnosis phase, aimed at identifying the areas affected by the change in accounting principles and by any modifications to information systems and data flows, was essentially completed in 2004. The studies carried out revealed no significant issues and/or critical aspects linked with the transition to IAS/IFRS.

In 2004 the necessary procedures were also carried out for the "restatement" of the consolidated balance sheet and profit and loss account in accordance with international accounting principles for the 2003 and 2004 accounts (e.g. figures as of 1 January 2004, the first period representing a comparison).

As the CONSOB consultation paper explains, the IAS/IFRS transition project involves using the valuation and measurement principles provided by existing legislation for the 2005 first quarter results. However, the group is expected to be in a position to apply the valuation and measurement principles laid down by international accounting principles for the preparation of the interim financial statements for the six months to 30 June 2005.

Impact of the introduction of IAS/IFRS

Based on the current status of the IAS/IFRS transition project, it is thought that the introduction of the IAS/IFRS will affect qualitatively the following areas:

Intangible assets-goodwill (consolidation differences)

Goodwill arising from "business combination" operations carried out by Tiscali in the years following the acquisitions is currently reported as an intangible asset under the heading "consolidation differences" and amortised over 12 years based on the estimated life of the underlying economic benefits. At the time of the adoption of the IAS/IFRS, this item will not be subject to amortisation, but an annual impairment test to determine its fair value and, if the assumptions are not supported, will be writen-down.

Intangible assets-start-up and expansion costs/advertising costs

Start-up and expansion costs and advertising costs cannot be capitalised under IAS/IFRS. These items, recorded on the balance sheet, in accordance with international accounting principles will be removed as a corresponding entry to the reduction in consolidated shareholders' equity.

Tangible assets-impairment tests

Like goodwill, tangible assets should undergo periodic impairment tests to assess whether their net book value can be recovered based on future cash flows generated by the assets in question. For this purpose, the cash generating unit (CGU) must be identified.

Staff severance fund

Staff severance funds, mainly relating to Tiscali group companies based in Italy, should be considered as “defined benefit plans” and must therefore undergo periodic actuarial valuation.

Profit and loss account-recognition of revenues

On the whole, the studies carried out have not revealed any changes to the accounting principles adopted for the recognition of revenues and for the correlation of the corresponding direct costs. However, a technical review is under way into the deferral of certain revenues and costs, such as those pertaining to ADSL services, taking account of the specific types of contract existing in the various countries and the situation in the corresponding markets.

Profit and loss account-extraordinary income and charges

Income and charges at 31 December 2004 reported on the balance sheet as “extraordinary” must be restated as operating costs and revenues, in view of the fact that IAS/IFRS do not allow these to be recorded on the profit and loss account separately.

Discontinued operations/held-for-sale investments

The figures for business areas and/or shareholdings in specific geographic areas which are to be sold must be restated under specific headings on the profit and loss account and balance sheet in order to highlight the effects arising from the sale of these. As with the shareholdings sold by Tiscali in 2004 and in the first few months of 2005, this will apply if these assets are part of a formally approved disposals programme and/or where a sale agreement exists. Held-for-sale assets must be recognised at the lesser of the carrying amount and the fair value, taking into account the estimated market value.

Auditing transitional data

As part of the transition to the IAS/IFRS, the task of auditing the figures for the transitional period falls to the external auditors responsible for auditing the financial statements of Tiscali group.

Operations with related parties

During the year, the Tiscali group had business dealings with various related parties. These mainly involve dealings with parties whose Directors and/or shareholders have a direct or indirect interest in the company.

Operations with a non-material effect on Tiscali's consolidated financial statements are conducted under market conditions.

The following table lists the balance sheet and profit and loss account data recorded in the financial statements of the Tiscali group arising from operations with related parties at 31 December 2004.

EUR 000	TRADE RECEIVABLES	TRADE PAYABLES	FINANCIAL RECEIVABLES	FINANCIAL PAYABLES	REVENUES	COSTS	FINANCIAL INCOME	FINANCIAL CHARGES
Interoute S.p.A. (Italy)	-	1,381	-	-	-	3,147	-	-
Interoute Telecom Deutschland GmbH	1,105	-	-	-	1,105	-	-	-
Kelyan S.p.A.	-	429	-	-	-	421	-	-
Shardna S.p.A.	124	-	-	-	103	-	-	-
Total	**1,229**	**1,810**	**-**	**-**	**1,208**	**3,568**	**-**	**-**

Interoute is a wholly-owned subsidiary of the Sandoz Family Foundation, one of Tiscali's shareholders. The costs incurred during the year relate to purchases made by the parent company, Tiscali SpA, in relation to dark fibre optics and the corresponding maintenance. The revenues were generated by Tiscali Business GmbH and relate to domain billing.

Dealings with Kelyan SMC, owned by Franco Bernabè Group, a member of the Board of Directors of Tiscali SpA, concern the purchase of consultancy services for the development of information systems and, like the previous year, concern the development of the data warehouse project.

Shardna SpA is a company in which the majority shareholder is Renato Soru. Dealings with the parent company involve the subletting of Tiscali's local office in Cagliari.

Corporate Governance

In relation to its system of corporate governance, the company has adopted the traditional model, which consists of a Board of Directors and a Board of Auditors. Notwithstanding the fact that recent company law reforms have given public limited companies the right to adopt models that depart from the traditional structure, the company has, at the present time, decided to keep its system of corporate governance unchanged in order to guarantee continuity and consistency with the consolidated structure, allowing a clear division of roles and powers between governing bodies, in consideration of the provisions of the Code of Conduct for Listed Companies.

At present, the governing bodies comprise the Board of Directors, the Board of Auditors and the shareholders' meeting.

The Board of Directors consists of the following committees:

- Internal audit committee (Victor Bischoff and Tomaso Barbini)
- Remuneration committee (Mario Rosso and Victor Bischoff)

Board of Directors

The Board of Directors has a prominent role in company life, as the body responsible for managing the company and for providing strategic and organisational direction. As such, it has the task of setting company objectives and monitoring their achievement.

This body is vested with all the 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. It reports to the Board of Auditors quarterly on activities carried out by the company or its subsidiaries and on operations of major significance from a business and financial standpoint.

The responsibilities and powers 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 that 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 11 members, as decided by the shareholders' meeting.

At 31 December 2004 the Board of Directors was composed of eight members. On 6 May 2004 the general meeting increased the number of board members from six to eight and appointed Ruud Huisman and Massimo Cristofori as Directors of the company.

Following the resignation of the Chairman, Renato Soru, on 23 September 2004, Vittorio Serafino was appointed to the Board and subsequently elected as its new Chairman.

The Board of Directors has set up an internal audit committee and a remuneration committee drawn from its members.

Chairman of the Board of Directors and Chief Executive

The company's articles of association stipulate that the Chairman of the Board of Directors must convene the Board, chair its meetings and co-ordinate its work. When Board meetings are held, the Chairman ensures that the documentation required for the Board to be able to hold an informed discussion of the subjects under examination is prepared and distributed to Directors well in advance of each meeting. Therefore, the Chairman performs the role indicated by Articles 4.1 and 4.2 of the code.

The articles of association also stipulate that, within the statutory time limit, the Board of Directors may appoint one or more managing Directors and decide upon the powers to be granted to him/them by law. At least once every quarter the Chairman reports to the other Directors and to the Board of Auditors at Board meetings on the most significant business and financial operations carried out by the company or by its subsidiaries. In addition, the Chairman supplies the Board with relevant and up-to-date information at Board meetings regarding atypical or unusual operations for which approval is not reserved for the Board, as well as the most significant activities occurring within the scope of the powers and duties vested in him or in the chief executive. Except in an emergency, or unless requirements dictate otherwise, it is normal procedure for such activities to be submitted for examination by the Board beforehand so that these can be approved in an informed and considered manner.

Non-executive and independent Directors

The Board of Directors currently comprises eight Directors, of whom three are executive and five non-executive; two of the non-executive Directors are independent.

The executive Directors are the chairman of the Board of Directors, Vittorio Serafino, the chief executive, Ruud Huisman, and the chief financial officer, Massimo Cristofori.

As indicated in Article 3.2 of the code, the Board evaluates Directors' independence once a year, in light of the information supplied by the individuals concerned when the report is prepared, and informs the market accordingly by publishing this report.

Franco Bernabè and Tomaso Barbini are independent Directors, satisfying the criteria for independence set out in Article 3.1 of the Code. For information, please note that, as shown in the table below, Franco Bernabè is vice-chairman of Hutchison 3G Italia SpA, in which Tiscali Finance SA, one of the company's subsidiaries, has a shareholding of around 0.3%.

None of the Directors has 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 and their involvement in corporate life, the Directors are able to dedicate the necessary time to perform their duties in a diligent manner.

In order to facilitate the disclosure of information to the market regarding the qualifications of individual Directors, the company has arranged to publish brief biographies in the relevant section of the investor relations page of its website, to enable shareholders and investors to assess the background and suitability of members of the Board of Directors.

The Board of Directors meets regularly, at least once every three months, to approve the quarterly reports as well as the interim report for the six months to 30 June and the draft financial results for the year as at 31 December.

The Board of Directors met thirteen times in 2004, chiefly to discuss and approve periodic accounting data and significant operations carried out by the company. It has met three times so far in 2005.

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, either 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 that even minority shareholders can submit their own lists. Pursuant to Article 11 (Board of Directors) of the company's articles of association, the lists of nominations were filed at the company's registered office at least 10 days before the first meeting, together with CVs for the individuals concerned.

Shareholders' meetings

The company has always encouraged and facilitated the participation of shareholders at meetings, supplying any company-related information they request in accordance with regulations governing price-sensitive communications. As recommended 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, by law, must be made available to them at the registered office when meetings are held, the company has made this documentation available in electronic format in a special section on the investor relations page of its website.

The Board of Directors believes that the rights and privileges of minority shareholders 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.

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.

Lists may only be submitted by those shareholders who, either alone or together with other shareholders, can prove that they hold at least 2% of the company's ordinary shares. Lists of nominations must be filed at the registered office at least 10 days before the first meeting, together with CVs for the individuals listed.

Each shareholder may vote for one list only. Members are elected as follows: two permanent statutory auditors and two deputy auditors are elected from the list obtaining the highest number of votes, in the numerical order in which they are listed; the third statutory auditor is the first candidate on the list obtaining the second highest number of votes. The chairman of the Board of Auditors is the first candidate on the list obtaining the highest number of votes.

On 29 April 2003 the ordinary shareholders' meeting appointed the current Board of Auditors, who will remain in office until approval of the financial statements for the year ended 31 December 2006. Aldo Pavan, Piero Maccioni, and Massimo Giaconia were elected statutory auditors. Andrea Zini and Rita Casu were elected 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's corporate purpose and, in any event, concern the telecommunications sector. The aforementioned article also states that individuals who are already statutory auditors for more than five listed companies may not be appointed as auditors of the company.

Committee

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. Following the resignation of, the Board of Directors today, the aforementioned committee is made up of Mario Rosso (chairman) and Victor Bischoff.

Appointments committee

The Board of Directors has not deemed it necessary to set up an appointments committee, since the voting list system defined in Article 11 (Board of Directors) of the company's articles of association guarantees the protection of minority shareholders. In addition, the voting list system requires proposals for the appointment of Directors to be submitted by shareholders based on candidates' suitability.

Internal audit committee

The Board of Directors has set up an internal audit committee to provide advice and recommendations. The committee is made up of non-executive Directors, the majority of whom are independent. Committee meetings are attended by the chairman of the Board of 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 confirming its appropriateness and proper functioning, ensuring that the main business risks are identified and adequately managed

(b) evaluating the plan of work devised by the internal audit co-ordinator and receiving the co-ordinator's periodic reports

(c) verifying, together with the company's Directors and external auditors, the suitability of the accounting principles and their uniformity for the purpose of drafting the consolidated financial statements

(d) evaluating accounting firms' bids for the role of external auditor, audit schedules and the results set out 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 for consulting assignments in respect of group companies that involve substantial fees

(g) reporting to the Board of Directors on the work performed and the adequacy of the internal audit process; this report should be prepared at least once every six months, upon approval of the annual and interim reports

(h) operating as a supervisory body pursuant to legislative decree 231/2001

(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 committee's objective is to improve the functionality and strategic guidance capacity of the Board of Directors with regard to the internal audit system.

The committee has no executive power over the internal audit system and does not perform statutory inspections. It does not therefore replace the Board of Auditors.

The internal audit committee has three members. They are all non-executive Directors, and as such are qualified to provide independent and unbiased opinions on matters within their remit, 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 SpA.

If it is not possible to ensure that the majority of committee members are non-executive and independent Directors, the number of members will be reduced to two (including one independent director) until the committee can be re-formed with a new member who fulfils the independence requirement. This 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, for as long as the committee is reduced to just two members, the independent director has the deciding vote in the event of a tied vote.

The Chief Executive may attend committee meetings only if explicitly invited to do so, as he is authorised to intervene in the business at hand and to determine appropriate action to deal with potentially critical situations.

The Chairman of the internal audit committee may also invite other parties to committee meetings, such as the external auditors, the chief operating officer, or the chief financial officer, but only in relation to specific items on 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.

Therefore, at present, 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.

Internal audit

The internal audit system is the responsibility of the Board of Directors, which sets guidelines for the system and periodically confirms that it is satisfactory and functioning properly, ensuring that the main business risks are identified and appropriately managed.

The Director responsible identifies the main business risks, submits them for 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 allocated the necessary resources.

The internal audit co-ordinator has no line manager, and reports directly to the chief executive, the internal audit committee and the Board of 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.

To ensure even greater independence, the internal audit co-ordinator (and thus the internal audit department) reports to the chairman of the internal audit committee. From an administrative standpoint, the internal audit co-ordinator (and thus the internal audit department) reports to the Chief Executive. The Chief Executive has the executive authority to grant the internal audit co-ordinator (and thus the internal audit department) the resources necessary to carry out his functions. The internal audit committee, in reviewing the plan of work submitted by the internal audit co-ordinator, decides whether the chief executive has granted sufficient resources to the internal audit co-ordinator, on the basis of the number of internal auditors and their responsibilities and qualifications in relation to the plan of work.

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 begun, has found the internal audit system to be adequate in relation to the company's needs, the laws in force and the recommendations enshrined in the Code.

Adaptation to Legislative Decree 231/2001

On 30 December 2004, the plan initiated in the second half of 2003, aimed at bringing the company's corporate governance into line with the standards contained in Legislative Decree 231/2001, was completed. This decree extends liability to the company for offences committed, under certain conditions, by its employees. The offences in question are essentially finance-related (including, for example, false reporting) and illegal activities (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 to prevent the offences described in the decree, and that it duly saw to their implementation.

A leading consulting firm with specialised expertise in the area has been hired to oversee this project. The risk assessment phase had already been completed by the date of the previous report, and on the basis of its results, the company subsequently finished drafting and defining the protocols and procedures required by Legislative Decree 231/2001. The internal audit committee is responsible for monitoring compliance with the protocols and procedures.

Related parties

It is company practice to keep transactions with related parties to a minimum (i.e. transactions considered as such by CONSOB Communication No. 2064231 of 30 September 2002). Any transactions of this nature are conducted in such a way as to ensure compliance with the criteria of a legal and procedural nature set out in 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 adopted, some time ago, national and international best practice, 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 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. In addition to this, and in accordance with Article 114, paragraph 2 of Legislative Decree 58/1998, on 12 November 2004 the group embarked on a process aimed at regulating the conduct of its parent company and subsidiaries with regard to price-sensitive information.

The company has an investor relations office responsible for establishing a dialogue with institutional investors and other shareholders. The investor relations office reports directly to the Chief Financial Officer.

On 12 November 2002 the company also adopted a code of conduct for internal dealing in accordance with Articles 2.6.3, 2.6.4 and 2.6.4 (ii) of the regulation of the Nuovo Mercato (managed by Borsa Italiana SpA), informing the market promptly. The internal dealing code identifies key personnel 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 2004 and up until the date of this report, transactions requiring disclosure owing to their amount were reported by the Chairman of the Board of Directors.

Events taking place after the end of the financial year

Operations in Italy

With effect from **1 January 2005** all Italian operations were transferred to Tiscali Italia Srl. These included the consumer, business, media and technology activities and Italian network infrastructure, together with the corresponding human resources and licences and authorisations to provide telecoms and internet services in Italy.

Also on 1 January 2005 all corporate functions and services carried out on behalf of the group were transferred to Tiscali Service Srl, which manages the information technology, media development and new product activities for the entire Tiscali group.

Both companies are wholly owned and directly controlled by Tiscali SpA.

The operation is aimed at rationalising and optimising the structure and activities of the group. In addition, the formal separation of corporate functions from the Italian operating activities will provide a clearer representation of the business and financial situation of the different functions.

The operation involved the realisation, for Tiscali SpA, of a capital gain on the transfer of around EUR 160 million, with a total transfer value, based on an independent consultant's valuation pursuant to Article 2465 of the Civil Code, of EUR 217.2 million, EUR 185.9 million of which related to operations transferred to Tiscali Italia Srl, including the underlying goodwill.

Disposal of non-strategic assets

On **17 January 2005** the South African competition regulator gave the go-ahead for the sale of the group's South African subsidiary, Tiscali Pty Limited, to MBWEB Holdings (Pty), as announced on 20 August 2004, for a total of around EUR 40 million.

On 12 January the regulator also gave the green light for the sale of Tiscali's South African mobile telephone operations to Vodacom Service Provider Company Ltd, as announced on 19 October 2004, for a total of EUR 5.3 million.

On **1 February 2005** Tiscali sold its Danish subsidiary, Tiscali Denmark A/S, to Tele2 A/S, a Danish company belonging to the Tele2 AB Group, in return for a total cash consideration of EUR 20.7 million.

Sale of Liberty Surf Group and Tiscali International Network SA assets

On 3 March 2005 Tiscali's Board of Directors, after reviewing the offers received for the French subsidiary Liberty Surf Group SA, instructed its executive Directors to proceed with the operation.

On **5 April 2005** Telecom Italia and Tiscali signed an agreement under which the former will buy out Tiscali's 95% stake in Liberty Surf SA, a French company listed on the Euronext Premier Marché in Paris.

The price agreed for Tiscali's stake is around EUR 266 million, based on a valuation of 100% of Liberty Surf at around EUR 280 million. This valuation takes into account Liberty Surf's net cash position of EUR 28 million. The payment will be made mainly in cash on the date the transaction is completed.

Completion of the transaction depends on the approval of the French competition regulator. An inspection of whether certain assets exist on the completion date is also planned. Based on the information available when this report was written, including legal opinions of the operation from a competition perspective, it is anticipated that the sale and associated payment will be timed to coincide with Tiscali group strategies.

Once the transaction has been completed, Telecom Italia will launch a public offer for the remaining Liberty Surf shares (around 5% of the free float), in the interests of minority shareholders, and as required by law.

Liberty Surf is France's leading internet service provider and boasts a nationwide presence. It has its own network infrastructure servicing more than 344,000 broadband customers (as of end 2004). In 2004, Liberty Surf generated revenues of EUR 225 million.

At the time this report was written, talks were also under way for the sale of the operating division of the subsidiary Tiscali International Network SA. Telecom Italia SpA has made a binding offer of EUR 10 million for this division, taken as the starting point for the negotiations.

Outlook and prospects

Background

Tiscali is one of Europe's leading internet service providers. It has 7,4 million active users, of which more than 1.65 million were ADSL customers at the end of December 2004. As stated earlier in this report, in 2004 and early 2005 Tiscali implemented its plan to dispose of non-core assets, i.e. shareholdings in "non-strategic" countries. In line with the disposals programme and the strategy for refocusing the group's activities in markets offering the most potential for value creation, the sale of the French subsidiary Liberty Surf was also finalised. Offers for the subsidiary have been received from various quarters. In the first half of 2005 the disposal of some remaining non-significant assets is planned (such as the company's Spanish subsidiaries, together with the assets of Tiscali International Network SA).

The proposal will allow the Tiscali group to focus on some of its key European markets, namely Germany, Italy, The Netherlands, and The UK. Czech Republic could represent for Tiscali an opportunity to grow and to expand in the Eastern European market as alternative to exit of the market. The strategic option is under consideration and should be taken by the summer.

It is expected that the intense growth witnessed in the ADSL market in Europe in recent years will continue in the years to come. The Tiscali group, by implementing a sustainable and successful business model, underpinned by the deployment of an unbundled network infrastructure, has established itself as one of the leading ADSL service providers on the European market. Tiscali is ranked among the top five operators in each of its markets. Its current market share, together with the favourable competitive outlook, forms the basis for the new 2005-2007 business plan. This is a challenge for the Tiscali group, and at the same time a major opportunity for consolidating internet activities within the ADSL segment.

2005-2007 business plan

Tiscali's Board of Directors has approved a three-point strategic plan:

- focus on key countries (Italy, The UK, The Netherlands, Germany, and The Czech Republic)
- selective unbundling
- growth in the provision of ADSL services

The 2005-2007 business plan contains a focus on the key European markets mentioned earlier, in which an unbundled network infrastructure will be developed. The competitive scenario and broadband penetration rate are different in each European country where Tiscali holds a key position and has decided to concentrate its activities. Therefore, the business plan, whose aim is to bolster the group's market position while improving profitability, has been devised while taking account of the key variables of each country (penetration rate, growth rate, available/adopted technologies, market structure, competition), and optimising the financial resources available for infrastructure and marketing investments.

At group level, a CAGR of 30% is projected for revenues in 2005-2007. The revenues forecast for 2007 are around EUR 1.4 billion.

It is also expected that in 2007 the number of ADSL users will break through the 3.8 million mark, with over 40% of these receiving unbundled services. Market share in European countries where Tiscali is present should exceed 10%.

The 2005-2007 business plan also targets ongoing improvements in profitability and optimisation of financial resources. The EBITDA margin is expected to top 24% in 2007, with growth at a CAGR of 70% in 2005-2007. In 2005 the EBITDA margin should widen beyond 13%, and a net profit is forecast, taking into account the capital gains arising from the disposals completed in 2005.

The investments planned over the next few years will be mainly allocated to the development and completion of the unbundled network infrastructure. For now, or in 2005, the planned investment of 12% of revenues will mainly affect Italy, The Netherlands and The UK. In Italy in particular the acceleration of the development plan will require an investment of around EUR 35 million, allowing 50% of current ADSL lines in Italy to be covered, with a target of 650,000 active ADSL users by 2007 and a market share of 8%. Even in The Netherlands, where the unbundled service is already active and covers more than 60% of ADSL lines, there are plans to increase levels of coverage and improve quality of service. The UK is an attractive market. It offers significant opportunities for growth, which Tiscali intends to exploit with a major investment of around EUR 90 million over the next three years, mainly dedicated to the development of an unbundled network.

For the short term - i.e. in 2005 - Tiscali has set the following targets:

- Revenues of over EUR 800 million, up by more than 20% (for the same consolidation period), to be generated chiefly by broadband access and business services
- EBITDA of over EUR 100 million
- Over 1.8 million ADSL users, with 30% receiving unbundled services
- Investment at 12% of revenues

Prospects

The huge growth in broadband has persuaded Tiscali group to focus its business model on the provision of broadband services. Faced with a viable, tangible market opportunity, it is becoming increasingly important to commit financial resources to investments and to winning new customers. At a time of accelerated investment, the initial phase of the business plan, to be launched in 2005, will inevitably involve negative cash flow. However, from 2006 onwards positive cash flow is forecast.

The implementation of the disposals programme for non-strategic assets, the capital increase operation completed in December 2004 and the sale of the French subsidiary Liberty Surf Group SA, will also give Tiscali group sufficient financial flexibility to be able to redeem the bonds due in July 2005 and, at the same time, finance its expansion properly during 2005.

With regard to the repayment schedule for the bonds due in July 2005, the plan also takes into account the capital released by the sale of the French subsidiary Liberty Surf Group, which should be available by the repayment date of the bond in question. In the event of complications in obtaining the green light from the competition authorities, causing a delay in contractual payments, short-term bank finance will be used to repay the bond by the due date instead. This temporary finance is in the process of being arranged.

Regarding the EUR 209.5 million bond repayment due in September 2006, note that: Tiscali's financial plans show that the financial resources available to the group and those generated from operations in the first quarter of 2006 will cover a large part of the loan, although a significant part of the repayment may have to take place by converting the bonds into shares. In view of the level of investment needed to continue supporting growth in the ADSL segment, it is Tiscali's intention to refinance all or some of the bonds due in 2006. This refinancing, aimed at optimising Tiscali's financial structure, could mean the issue of further bonds, possibly convertible ones. This has the added advantage of minimising the risk inherent in any operating strategy deployed in a highly competitive market, while at the same time maximising financial flexibility.

The outlook for the sector and the competitive position of the group, given the streamlined operations resulting from the disposals plan and group restructuring in key countries, are entirely consistent with achieving a business and financial balance within the group. This is confirmed by the forecasts drawn up following implementation of the disposals programme and by the refinancing strategy.

In particular, meeting the targets set by the strategic and financial plan is the key to improving Tiscali's financial position and to ensuring the stability of its businesses and finances; this would guarantee the group's ability to raise the finances necessary to support growth, particularly in broadband services.

Lastly, to provide a complete picture of the group's position, it should be noted 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 experienced in the normal course of business by group companies.

Details of Tiscali's net debt at 28 February 2005 are given below.

Group net debt

EUR million	28 FEBRUARY 2005
Cash and cash equivalents	170,639
Short-term bank and other financial debt	(43,494)
Bonds	(250,000)
Short-term net debt	**(122 856)**
Medium- and long-term bank and other financial debt	(61,504)
Bonds	(204,202)
Net debt	**(388,562)**

The financial situation at the end of February 2005 is influenced by significant marketing investments and by ongoing development of the unbundled network, as set out in the new business plan.

Shares held by Directors and Auditors

As required by law, and specifically by 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 AND SURNAME	POSITION	NO. OF SHARES HELD AS OF 31.12.04	NO. OF SHARES PURCHASED	NO. OF SHARES SOLD	NO. OF SHARES HELD AS OF 31.12.03
Board of Directors					
Vittorio Serafino	Chairman	22,200*	22,200*	-	-
Ruud Huisman	CEO	189,540	-	-	189,540
Massimo Cristofori	CFO	1,000	-	-	1,000
Tomaso Barbini	Director	-	-	-	-
Franco Bernabè	Director	-	-	-	-
Victor Bischoff	Director	-	-	-	-
Mario Rosso	Director	-	-	-	-
Gabriel Pretre	Director	489	-	-	489
Board of statutory auditors					
Aldo Pavan	Chairman	-	-	-	-
Massimo Giaconia	Statutory Auditor	-	-	-	-
Piero Maccioni	Statutory Auditor	-	-	-	-
Rita Casu	Deputy Auditor	50	-	-	50
Andrea Zini	Deputy Auditor	2,054	-	-	2,054

** including 3,300 purchased in January 2005*

Vittorio Serafino

For the Board of Directors

The Chairman

Vittorio Serafino

CONSOLIDATED ACCOUNTS

CONSOLIDATED ACCOUNTS

Balance sheet

Assets
(EUR 000)

				Due within one year 31.12.2004	Due within one year 31.12.2003	31.12.2004	31.12.2003
A)			**Capital contributions due from shareholders**				
B)			**Non-current assets**				
	I		**Intangible assets**				
		1)	Start-up and expansion costs			4,651	2,602
		2)	Research, development and advertising costs			370	8,987
		3)	Industrial patent rights and intellectual property rights			21.411	28.195
		4)	Concessions, licences, trademarks and similar rights			134,894	159,358
		5)	Goodwill			-	208
		6)	Payments on account and tangible assets in course of acquisition			4,439	1,979
		7)	Other			20,283	10,666
		8)	Consolidation difference			393,124	503,908
			Intangible assets			**579,173**	**715,903**
	II		**Tangible assets**				
		1)	Land and buildings			24,737	30,947
		2)	Plant and machinery			153,501	171,838
		3)	Industrial and commercial equipment			-	767
		4)	Other tangible assets			30,114	40,491
		5)	Payments on account and tangible assets in course of acquisition			9,477	2,507
			Tangible assets			**217,829**	**246,550**
	III		**Long-term investments**				
		1)	**Investments in:**				
		a)	non-consolidated group companies			1,371	714
		b)	affiliated companies			1,271	66
		c)	parent companies			-	-
		d)	other companies			12,708	12,547
		2)	**Receivables**				
		a)	From non-consolidated group companies	-	-	771	-
		d)	from others	-	-	2,038	8,038
		3)	**Other securities**			**533**	**-**
		4)	**Own shares**			**-**	**-**
			Long-term investments			**18,692**	**21,365**
			Non-current assets			**815,694**	**983,818**

Assets
(EUR 000)

			Receivable after one year			
			31.12.2004	31.12.2003	31.12.2004	31.12.2003
C)		**Current assets**				
I		**Inventories**				
	1)	Raw materials, supplies and consumables			955	3,171
	2)	Work in progress and semi-finished products			22	-
	3)	Contract work in progress			-	1,431
	4)	Finished goods			1,735	4,914
	5)	Payments on account			-	390
		Inventories			**2,712**	**9,906**
II		**Receivables**				
	1)	Receivables from customers	-	-	150,150	173,152
	2)	From non-consolidated group companies	-	-	268	6,808
	4 bis)	Tax receivables	-	-	59,817	59,981
	4 ter)	Deferred tax assets	93,979	49,804	158,495	52,221
	5)	from others	27	2,439	14,523	11,881
		Receivables	**94,006**	**52,243**	**383,253**	**304,043**
III		**Investments other than non-current assets**				
	6)	Other securities			25,846	69,038
		Investments other than non-current assets			**25,846**	**69,038**
IV		**Cash and cash equivalents**				
	1)	Bank and post office deposits			128,413	203,544
		Cash and cash equivalents			**128,413**	**203,544**
		Current assets			**540,224**	**586,531**
D)		**Accrued income and deferred charges**				
		Accrued income			32,233	40,117
		Deferred charges			119,848	50,795
		Accrued income and deferred charges			**152,081**	**90,912**
		Assets			**1,507,999**	**1,661,261**

Liabilities and shareholders' equity

(EUR 000)

			Due after one year 31.12.2004	Due after one year 31.12.2003	31.12.2004	31.12.2003
A)		**Shareholders' equity**				
		Total shareholders' equity				
	I	Share capital			196,619	184,460
	II	Share premium reserve			1,440,874	1,506,686
	III	Revaluation reserve			-	-
	IV	Legal reserve			-	-
	V	Statutory reserves			-	-
	VI	Reserve for own shares held			-	-
	VII	Other reserves				
		Currency translation reserve			(33,600)	(32,184)
		Previous profit (losses) of subsidiaries			(1,133,248)	(997,294)
	VIII	Retained earnings (losses carried forward)			-	-
	IX	Profit (loss) for the year			(159,466)	(242,448)
		Total group shareholders' equity			**311,179**	**419,220**
	XI	Minority interest			6,499	9,870
		Minorities' portion of profit (loss) for the year			(1,906)	(3,534)
		Total minority interests			**4,593**	**6,336**
		Shareholders' equity			**315,772**	**425,556**
B)		**Provisions for risks and future liabilities**				
	3)	Other			22,141	27,011
		Provisions for risks and future liabilities			**22,141**	**27,011**
C)		**Staff severance fund**			**10,810**	**10,850**
D)		**Payables**				
	1)	Bonds	209,500	459,500	459,887	540,684
	3)	Loans due to shareholders	32,500	-	32,500	-
	4)	Due to banks	36,474	33,503	62,221	71,495
	5)	Due to other financial institutions	19,151	28,357	41,674	43,551
	7)	Payables to suppliers	26,671	-	317,956	310,647
	9)	Payables to non-consolidated group companies	1,539	2,210	2,064	2,210
	10)	Due to affiliated companies	-	54	-	54
	12)	Taxes payable	-	-	32,398	29,055
	13)	Due to social security authorities	-	-	12,275	10,729
	14)	Other payables	2,091	15,203	31,169	36,148
		Payables	**327,926**	**538,827**	**992,144**	**1,044,573**
E)		**Accrued liabilities and deferred income**				
		Accrued liabilities			68,017	77,612
		Deferred income			99,115	75,659
		Accrued liabilities and deferred income			**167,132**	**153,271**
		Liabilities and shareholders' equity			**1,507,999**	**1,661,261**

Memorandum accounts

(EUR 000)

	31.12.2004	31.12.2003
GUARANTEES RECEIVED		
from third parties and group companies		
Sureties	858	1,826
from third parties and group companies	**858**	**1,826**
OTHER MEMORANDUM ACCOUNTS		
Commitments	1,912	13,578
OTHER MEMORANDUM ACCOUNTS	**1,912**	**13,578**
GUARANTEES GIVEN		
to third parties		
Sureties	32,680	18,332
to third parties	**32,680**	**18,332**

Profit and loss

(EUR 000)

			31.12.2004	31.12.2003
A)		**Value of production**		
	1)	Revenues from sales and services	1,078,340	894,919
	2)	Changes in inventories of work in progress, semi-finished and finished products	(4)	4
	3)	Changes in contract work in progress	-	1,431
	4)	Increases in assets for work in progress (internal)	2,225	1,794
	5)	Other income	-	2,874
		Value of production	**1,080,561**	**901,022**
B)		**Production costs**		
	6)	Raw materials, supplies and consumables	(3,817)	(5,005)
	7)	Services costs	(774,970)	(641,399)
	8)	Lease and rental expense	(28,593)	(29,405)
	9)	Personnel costs		
	a)	Wages and salaries	(115,837)	(107,286)
	b)	Social security contributions	(29,383)	(22,577)
	c)	Staff severance pay	(4,805)	(4,790)
	d)	Pension provisions and similar obligations	-	-
	e)	Other costs	(6,616)	(7,413)
	10)	Depreciation, amortisation and write-downs		
	a)	Amortisation of intangible assets	(121,890)	(131,724)
	b)	Depreciation of tangible assets	(83,245)	(94,899)
	c)	Other write-downs of non-current assets	(153)	(50,421)
	d)	Write-downs of receivables included in current assets and cash and cash equivalents	(22,629)	(16,591)
	11)	Changes in inventories of raw materials, supplies and consumables	-	(388)
	12)	Risk provisions	-	(9,741)
	13)	Other provisions	(512)	(223)
	14)	Other operating expenses	(7,718)	(8,030)
		Production costs	**(1,200,168)**	**(1,129,892)**
(A - B)		**Difference between value of production and costs**	**(119,607)**	**(228,870)**

Profit and loss
(EUR 000)

				31.12.2004	31.12.2003
C)			**Financial income and charges**		
	15)		**Income from equity investments**		
	16)		**Other financial income**		
		a)	From receivables listed under non-current assets		
			From non-consolidated group companies	2	25
			from affiliated companies	6	7
		b)	From securities listed under non-current assets other than equity investments	393	303
		d)	Earnings other than the above		
			from third parties	22,391	44.384
			from non-consolidated group companies	35	-
	17)		**Interest and other financial charges**		
		a)	to third parties	(59,789)	(72.555)
		b)	to subsidiaries	(1,455)	(26)
	17-bis)		**Exchange rate gains and losses**	**755**	**7,273**
			Financial income and charges	**(37,662)**	**(20.589)**
D)			**Adjustments to the value of financial assets**		
	18)		**Revaluations**		
		a)	of equity investments	1,165	749
	19)		**Write-downs**		
		a)	of equity investments	(525)	-
			Adjustments to the value of financial assets	**640**	**749**
E)			**Extraordinary income and charges**		
	20)		**Extraordinary income**		
		a)	Income	15,043	61,603
		b)	Capital gains on disposals of non-current assets	36,003	976
	21)		**Extraordinary charges**		
		a)	Charges	(102,355)	(107,460)
		b)	Capital losses on disposals of non-current assets	(61,155)	(1,975)
			Extraordinary income and charges	**(112,464)**	**(46,856)**
			Pre-tax profit (loss)	**(269,093)**	**(295,566)**
	22)		**Corporate income tax for the financial year**		
		a)	Current portion	(2,987)	(2,035)
		c)	Deferred tax credit	110,708	51,619
			Profit (loss) for the year	**(161,372)**	**(245,982)**
			Minorities' portion of profit (loss) for the year	1,906	3,534
			Group profit (loss)	**(159,466)**	**(242,448)**

For the Board of Directors

The Chairman

Vittorio Serafino

Notes to the consolidated financial statements as at 31 December 2004

(all figures in EUR 000)

Form and content of the consolidated financial statements

Accounting criteria

The consolidated financial statements have been prepared in accordance with art. 25 and subsequent articles of Legislative Decree 127/91. They are made up of the balance sheet, profit and loss account and these notes to accounts.

The provisions concerning the preparation of financial statements introduced under corporate law reforms (Legislative Decree 6 of 17 January 2003-known as the Vietti Reform-and its subsequent revisions, together with Legislative Decree 310 of 28 December 2004) were applied. In this regard, balance sheet and profit and loss tables were subsequently adjusted to meet the requirements of the new provisions, and-to ensure consistency-the corresponding items from previous periods were also restated. The notes to the accounts also include the information required by the provisions referred to above. The impact of the new provisions on Tiscali's financial statements is not, on the whole, significant.

The cash flow statement is attached to these notes to accounts.

General accounting criteria

Going concern basis

These financial statements were prepared on the assumption that the company is a going concern and is operating normally, since the outlook in the sector in which Tiscali operates and its competitive position mean that the group's aim of achieving a better financial structure is well within its grasp, as indicated in the business plans. In 2004 and at the beginning of 2005, the plan to dispose of non-strategic assets was implemented. As provided by the group's refinancing strategy, this plan, together with available financial resources, will allow Tiscali SpA and the group to meet its obligations by the established deadlines. In particular, the attainment of the targets set out in the strategic plan represents 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 raise the finances necessary to sustain growth, particularly in broadband services, and also ensure the group is able to redeem the next bond issues falling due for bonds outstanding at the end of 2004. The company's position as a going concern is also supported by the substantial improvement in operating results achieved in 2004 and by the expectations of further substantial and ongoing advances in 2005 and future 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.

Other general accounting 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 financial statements are the same as those used by the parent company Tiscali SpA, 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 (Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri), and supplemented by IAS/IFRS (International Financial Reporting Standards) 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 the accruals principle, on the expectation that the group is a going concern (as noted above), and taking into account the economic function of the asset and liability items concerned.

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.

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

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

Basis of consolidation

The consolidated annual financial statements of the Tiscali group include the financial statements of the parent company and those of all companies where Tiscali (either directly or indirectly) controls the majority of votes exercisable at ordinary shareholders' meetings or holds sufficient votes to exercise a dominant influence on the ordinary shareholders' meeting, 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 controls a majority of votes thanks to agreements with other shareholders.

The basis of consolidation has changed since 31 December 2003 following certain transactions carried out as part of the group's reorganisation, as already described in the Report on operations. The basis of consolidation changed during 2004 because of the disposals made during the year. These disposals are summarised below.

- Tiscali Osterreich GmbH, Austria (sold on 13.08.04)
- Tiscali AS, Norway (sold on 23.08.04)
- Tiscali Datacomm AG, Switzerland (sold on 16.09.04)
- Tiscali AB, Sweden (sold on 29.09.04)
- Tiscali Luxembourg SA, Luxembourg (sold on 08.12.04)
- Tiscali NV, Belgium (sold on 28.12.04)
- STS Italia (sale of controlling interest on 24.09.04)

In line with standard accounting criteria, the financial statements of the companies sold were consolidated up until the date the sale was finalised. Consequently, the profit and loss account of these consolidated annual financial statements includes the results of the above companies in proportion with the period in which the group maintained a controlling interest.

If significant, the impact from removing the above companies from consolidation is provided in comments on the various items of the consolidated annual financial statements.

The financial statements of Tiscali Pty (South Africa) were fully consolidated for all of 2004. Although contracts for the sale of the company and its mobile telephone operations were signed on 20 August 2004 and 19 October 2004 respectively, these transactions were finalised in February 2005 and January 2005 respectively after the end of the period and following the approval of local competition authorities.

The investment in Best Engineering SpA was sold on 26 January 2005, and thus, is included in the basis of consolidation as at 31 December 2004.

All subsidiaries whose financial statements would have no material impact on the values shown and all non-operating subsidiaries are excluded from full consolidation. 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 SpA-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.

Reporting date

The consolidated financial statements were prepared using the draft financial statements as at 31 December 2004 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.

Consolidation principles

The financial statements 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) 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.

Conversion of items denominated in foreign currency

The financial statements of foreign consolidated companies prepared in currencies other than the euro were converted based on the following criteria: balance sheet items are converted into euro at the exchange rate in force at the end of the financial year, while 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 financial statements is provided in another section of these notes.

Accounting policies

Intangible assets

Intangible assets are recorded at purchase or production cost, including any additional charges. The cost of intangible assets, which have a limited use over time, is amortised on a straight-line basis in accordance with their remaining useful life. Intangible assets are written down whenever there is a reduction in their value. If this occurs, the notes to the accounts indicate the amount and reasons for the reductions in value, with reference to the expected contribution of the assets concerned to the generation of future profits, as well as their expected useful life and their market value, if relevant. The original value is re-established to the extent it is believed that the reasons for the previous reductions in value no longer apply.

“Start-up and expansion costs” are entered under the appropriate accounting entry on the asset 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 capitalised R&D and advertising costs are booked under the appropriate line item under “Assets” and amortised over a two-year period, in consideration of the number of years taken to recoup such costs, starting from the financial year in which they were incurred. This is particularly true for advertising costs relating to the launch of new broadband products and services incurred during the previous financial year, which were fully amortised as at 31 December 2004.

“Industrial patent 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 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 also recorded at their acquisition cost and amortised using the straight-line method in accordance with the period of use established by 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. Specifically, IRUs are amortised over the shorter of the term of the concession and the projected use of the right.

Maintenance expenses and leasehold improvements 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.

“Other intangible assets” are recorded at their purchase or internal production cost, including any additional charges, and amortised on a straight-line basis.

Consolidation difference

Consolidation differences are recorded in the consolidated financial statements 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.

The consolidation difference is amortised from the acquisition date of the company or division over a maximum period of twelve years. The period of 12 financial years was established for the preparation of accounts for the year ending 31 December 2003; the period used until 31 December 2002 was five financial years. This change in the remaining useful life of the consolidation difference was determined as a function of the following conditions of a structural nature:

1) the Tiscali group's businesses are, and will continue to be, well established in its core markets, partly due to greater market deregulation; this scenario applies in all countries in which Tiscali operates, particularly those in which the local operation's consolidation difference is more substantial from an accounting standpoint;

2) the results achieved by the various companies within the group have been continually improving;

3) the group's management has extended the reference period overall, including in relation to the impact of the reorganisation plan.

To support the internal analysis conducted by the company, at the time the previous annual accounts were prepared, the Board of Directors commissioned a report by an independent consultant that supported the adoption of an amortisation period of 10-15 years.

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 remaining useful life of the consolidation difference can be extended.

As already indicated in the paragraph of the Report on operations describing the transition process to International Accounting Standards (IAS/IFRS), it should be noted that these standards, which are to be used for the preparation of annual accounts for 2005, and in comparative form of figures for the 2004 accounts, specify that goodwill will no longer be amortised, but will be subject to an "impairment test" each financial year to verify the related book value and to determine the need to report any write-downs. In this context, the amortisation period adopted for accounts starting in 2003 seems appropriate and is in line with that used by other companies in the sector. As in the case of previous financial years, for the purposes of these accounts an impairment test was performed using a methodology that complies with IAS/IFRS.

Tangible assets

Tangible assets are recorded at purchase or production cost, including any additional charges. The cost of tangible assets, which have a limited use over time, is regularly depreciated based on the remaining useful life of such assets. Tangible assets are written down whenever there is a reduction in their value. If this occurs, the notes to the accounts indicate the amount and reasons for the reductions in value, with reference to the expected contribution of the assets concerned to the generation of future profits, as well as their expected useful life and their market value, if relevant. The original value is re-established to the extent it is believed that the reasons for the previous reductions in value no longer apply.

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, as indicated below, are the same as those for the parent company:

DEPRECIATION	
Buildings	3 %
Specific plant	20 %
General plant	12% - 20%
Other equipment	12% - 25%
Other tangible assets	12% - 25%

It should be noted that the depreciation rates used for IP and Ethernet network equipment (commercially known as routers and L3/L2 switches), with particular reference to roll out at data centres (i.e., the centralised facilities from which internet services are provided), were confirmed in a special opinion provided by an independent consultant for the accounts for the year to 31 December 2003. This equipment represents the most significant asset category. This report established the useful life of these assets (with the same technical specifications and used for the same purposes) at five years, and has appropriately allowed Tiscali to harmonise depreciation rates for this equipment at 20% (the rate previously applied by the parent company) across the various group companies.

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 operating leasing agreements that are assimilate to finance leases are recorded 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 recorded as offsetting entries under the appropriate tangible asset item. Leasing payments are offset against lease and rental expenses, and interest charges for the financial year are recorded under financial charges. This ensures that financial leasing operations are reported in accordance with the methodology established under IAS 17.

Long-term investments

Holdings 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 financial 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 in valuation of long-term investments".

Stakes held in other companies and long-term securities

All other stakes and securities are valued at cost and written down for any permanent losses of value, which may also be due to market prices for listed securities. The value before the write-down will be restored in any period when the conditions for the write-down no longer apply.

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

Inventories

Inventories are valued at the lower of the purchase cost and estimated market value.

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.

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).

Payables

Payables are recorded at nominal value.

Staff severance fund

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.

Reserves for risks and future liabilities

Reserves for risks and future liabilities are intended to provide cover 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.

Accruals and deferrals

Accruals and deferrals include only the proportion of earnings and charges for the financial year that will be booked in subsequent financial years, and the proportion of revenues accruing and expenses incurred before the end of the financial year but that will fall due in subsequent financial years. In any case this account include portions of revenues and expenses, common to two or more financial years, the amount of which varies over time.

Tax

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 and reported under "reserves for risks and future liabilities" (deferred tax reserve), in relation to amounts expected to be paid in future financial years. Similarly, in the case of deferred tax assets that relate to losses, the deferred tax reserve is reduced by this amount, while any surplus portion is booked in current assets under "Deferred tax assets", if there is reasonable certainty of their recovery.

Deferred tax assets in respect of previous losses carried forward are only included if there is reasonable certainty that they will be recovered in subsequent financial years.

Deferred tax charges and credits are directly reflected in the profit and loss account.

Foreign exchange transactions

Receivables and payables denominated in foreign currencies are booked at the exchange rate at the end of the period, and related translation gains or losses are credited or debited to the profit and loss account on the appropriate line under “exchange rate gains and losses.” No tangible or intangible assets or equity investments were reported at cost in foreign currencies.

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

EXCHANGE RATES		END-OF-YEAR RATE	AVERAGE RATE
Swiss franc	CHF	1.5429	1.5364
Czech koruna	CSK	30.4640	31.9056
Danish krone	DKK	7.4388	7.4400
British pound	GBP	0.7051	0.6786
Norwegian krone	NOK	8.2365	8.3719
Swedish krona	SEK	9.0206	9.1250
South African rand	ZAR	7.6897	8.0165

After the end of the financial year, there were no significant changes in these exchange rates.

Derivatives

Tiscali has several derivatives (interest rate swaps) outstanding to hedge the risk of interest rate fluctuations in respect of bonds. These derivatives are adjusted to fair value at the end of each period. Gains and losses resulting from the determination of fair value for derivatives are reflected in the profit and loss account.

Memorandum accounts

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

Recording of revenues, income, costs and charges

Revenues and income, and costs and charges are recorded in the accounts, net of discounts, rebates and bonuses, in accordance with the accruals principle.

Revenues from narrowband and broadband internet connection services and voice services are reported on the profit and loss account on the basis of actual traffic figures at the end of the period and/or on the basis of the accrued service fee.

Revenues and costs relating to ADSL activation (installation and modems/equipment) for broadband services are recorded on the profit and loss account in relation to the expected duration of 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). The deferral period is periodically reviewed in relation to updated statistics (“churn rate”) and market conditions.

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

Financial income and expenses are booked on the basis of accrual accounting principles.

Analysis of accounts items

Assets

(all figures in 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. 2003	INCREASES	DECREASES	OTHER CHANGES (*)	AMORTISATION	31.12. 2004
Start-up and expansion costs	2,602	4,335	(120)	(314)	(1,853)	4,651
Research, development and advertising costs	8,987	761	(4)	19	(9,393)	370
Industrial patent rights and intellectual property rights	28,195	2,752	(2,838)	95	(6,793)	21,411
Concessions, licences, trademarks and similar rights	159,358	39,881	(24,262)	(5,168)	(34,916)	134,894
Goodwill	208	-	(208)	-	-	-
Payments on account and intangible assets in course of acquisition	1,979	2,651	(191)	-	-	4,439
Other	10,666	31,383	(1,106)	(2,914)	(17,746)	20,283
Consolidation difference	503,908	67	(57,324)	(2,338)	(51,189)	393,124
Total	**715,903**	**81,831**	**(86,053)**	**(10,620)**	**(121,890)**	**579,173**

* *"Other" includes changes in the basis of consolidation, reclassifications and foreign exchange differences.*

"Start-up and expansion costs" were entirely attributable to the parent company and largely included the multi-year cost of capital increases. In addition, this item included EUR 4.3 million in increases relating to the parent company's capital increase carried out at the end of December 2004.

At the end of the previous year, "research, development and advertising costs" included about EUR 18.8 million in advertising costs capitalised in that year, which were fully amortised on a straight-line basis in the period when incurred and in the current year. 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 in 2004.

The "industrial patent and intellectual property rights" line includes applications software acquired for an unlimited period and customised for the exclusive use of the company, along with investments in network development and preparation of technical sites for the ULL project. The increase included EUR 2.6 million attributable to the Dutch subsidiary Tiscali BV, which was for the purchase of rights for the commercial use of several films presented at the Rotterdam film festival. These costs were charged to the profit and loss account over a period of twelve months corresponding to the expected period of useful life.

“Concessions, licences, trademarks and similar rights” totalled EUR 134.8 million and included EUR 67.7 million in investments in software and user licences and the related implementation expenses. This item also included EUR 67.1 million in rights of the subsidiary Tiscali International Network BV and its direct subsidiaries for the purchase of long-term transmission capacity through the purchase of usage rights (IRUs-Indefeasible Rights of Use). The EUR 24.2 million decrease included assets disposed by Tiscali International Network (EUR 4.2 million) and the write-down (EUR 15 million) at the time 2004 accounts were closed to adjust the value of the IRUs held by Tiscali International Network SA to their estimated realisable value, as a part of the sales contract with Telecom Italia SpA. The EUR 39.9 million increase during the year was primarily due to the implementation of new IRU contracts, which are needed to grow ADSL business on an unbundled basis, and the cost of software licences purchased to improve the quality of services and support growth in internet traffic. Most of this increase could be attributed to the parent company (EUR 17.8 million), Liberty Surf Group (EUR 8.2 million) and Tiscali International Network (EUR 9.2 million). Finally, this item included EUR 5.1 million in other changes of which EUR 4.4 million was due to the deconsolidation of companies sold in 2004.

The “other” line item of EUR 20.2 million included upgrade costs on third-party assets of EUR 7.2 million (amortised on a straight-line basis for the shorter of the contract term and the remaining useful life of the related asset) and EUR 13 million in investments required to implement the ULL. Of the EUR 31.3 million increase in this item, EUR 26.4 million was due to investments for technical site preparations and set-up for the implementation of ADSL services in unbundled mode. These investments were made primarily by the parent company and Liberty Surf Group.

Excluding the consolidation difference, the effect of the deconsolidation of the companies sold on intangible assets totalled EUR 5.5 million, of which EUR 3.7 million relating to the Belgian subsidiaries. This effect was included in other changes as a change in the basis of consolidation.

Consolidation difference

The consolidation difference arose from the Tiscali group’s aggressive acquisitions strategy, particularly in 2000 and 2001. During that period, most acquisitions were carried out through share exchanges (under art. 2343 of the Italian civil code, which regulates payments in kind). These shares were issued in capital increases carried out by Tiscali SpA (without pre-emptive rights, based on paragraph IV, art. 2441 of the civil code).

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.

Subsequently, in 2001 the share prices of internet companies plummeted on the financial markets, also affecting the performance of the Tiscali stock. In the accounts for the period ending 31 December 2001, this resulted in the posting of significant extraordinary write-downs and amortisation of the consolidation difference.

As already indicated in the section of these notes on accounting principles, the consolidation difference is amortised from the date the company or division is acquired, over a period of 12 years. The period of 12 financial years was established for the preparation of accounts for the year ending 31 December 2003; the period used until 31 December 2002 was five financial years. This change in the remaining useful life of the consolidation difference was determined as a function of several conditions of a structural nature described in the section noted above.

As in previous years, for the preparation of accounts as at 31 December 2004, the value of the consolidation difference was subject to an “impairment test” in order to verify the existence of any reduction in value having reported the capacity of these intangible assets to contribute to the future generation of profits, their expected useful life, and if applicable and determinable, their market value if such value can be determined in a reasonable and objective manner.

Since business strategies are primarily determined on a country-by-country basis, an individual country can be associated with one of the Tiscali group’s strategic business units. As a result, for the purposes of the impairment test, the value of goodwill, which was broken down by individual subsidiary (legal entity), was recombined by country of origin. In particular, this led to the allocation of the goodwill of World Online International NV to individual countries. Thus, the impairment test was carried out as follows in relation to the nature of the underlying equity investments:

Strategic countries (Italy, Germany, the UK, the Netherlands and the Czech Republic)

The analysis focused on discounted future cash flows taken from the Tiscali business plan for the various business units.

Based on the application of the DCF (discounted cash flow) method, no reduction in value was reported, and thus, no write-downs were carried out for the portion of the consolidation difference relating to operations in countries in which Tiscali intends to concentrate its activities.

Country operations sold and/or falling under the disposal plan

With regard to the goodwill for those country operations sold after the closing date of the 2004 accounts (Denmark and South Africa), for those country operations where an agreement for their sale was recently signed (Liberty Surf Group SA in France and Tiscali International Network SA), and for those country operations that are expected to be sold within the current financial year (Spain), the impairment test focused on comparing book and market value, with the contractually defined value or (as in the case of Spain), the estimated realisable value based on the progress of sale negotiations.

The table below provides a summary of the composition and changes in the consolidation difference during the financial year ending 31 December 2004, as well as reductions in value reported in the 2004 accounts. With regard to the effects of sales finalised during the same financial year, see comments on extraordinary items on the profit and loss account.

COMPANY	31.12.2003	INCREASES	WRITE-DOWNS	SALES	OTHER CHANGES	AMORTISATION	31.12.2004
Tiscali Telekomunikace sro	426	-	-	-	-	(48)	379
Tiscali Denmark A/S	875	-	-	-	(88)	(88)	699
Tiscali Oy	1	-	-	-	-	-	1
Tiscali AB	1,559	-	-	(1,423)	1	(137)	-
Tiscali España SA	12,520	-	(4,209)	-	(132)	-	8,179
Tiscali Telecomunicaciones SA	54	-	-	-	(6)	(6)	42
Excite Italia BV	3,473	-	-	-	-	(381)	3,092
Ideare SpA	1,866	-	-	-	-	(205)	1,660
Tiscali Motoring Srl	63	-	-	-	-	(8)	55
Quinary SpA	1,477	-	-	-	-	(177)	1,301
STS Studi Tecnologie Sistemi SpA	1,046	-	-	-	(1,046)	-	-
Tiscali Österreich Gmbh	1,750	-	-	(1,615)	2	(137)	-
Tiscali Datacomm AG (Datacomm AG)	18,642	-	-	(17,095)	-	(1,547)	-
Tiscali Deutschland Gmbh	54,090	-	-	-	-	(6,638)	47,452
Tiscali GmbH	10,267	-	-	-	(85)	(1,018)	9,164
Tiscali International Network SA	7,854	-	(7,853)	-	-	-	-
Liberty Surf Group SA	39,221	-	-	-	-	(4,260)	34,961
Tiscali Access SA (formerly Liberty Surf SA)	3,806	-	-	-	191	(230)	3,767
Ovni Web SA	319	-	-	-	-	(38)	282
Tiscali Media SA (formerly Objectif Net SA)	535	-	-	-	-	(65)	469
Infonie Promotions	6,243	-	-	-	-	(862)	5,380
Tiscali Telecom SA (formerly Liberty Surf Telecom SA)	21,907	-	(5,950)	-	-	(1,453)	14,505
Intercall SA	3,794	-	-	-	-	(399)	3,395
Tiscali UK Ltd	43,062	-	-	-	(655)	(4,629)	37,778
Tiscali Holdings UK plc	56,444	-	-	-	-	(5,089)	51,355
World Online Telecom Ltd	3,581	-	-	-	872	(498)	3,954
Tiscali Internet Limited	553	-	-	-	-	(50)	503
Tiscali BV	8,396	67	(26)	-	687	(1,069)	8,055
World Online International NV	187,001	-	(8,556)	(4,951)	-	(20,871)	152,623
Wanadoo Belgium SA	8,495	-	-	(7,723)	-	(772)	-
Vodacom World Online Ltd	4,590	-	-	-	-	(514)	4,076
	503,908	**67**	**(26,595)**	**(32,806)**	**(260)**	**(51,189)**	**393,124**

As at 31 December 2004, the consolidation difference was EUR 393.1 million, a drop of EUR 110.8 million from the EUR 503.9 million for the previous year, as a result of:

- EUR 33.8 million due to the following sales finalised in 2004:

  - EUR 17.1 million: goodwill for Tiscali AG, Switzerland (sold on 16.09.04)

  - EUR 1.6 million: goodwill for Tiscali Osterreich GmbH, Austria (sold on 13.08.04)

  - EUR 1.4 million: goodwill for Tiscali AB, Sweden (sold on 29.09.04)

  - EUR 7.7 million: goodwill for Tiscali NV, Belgium (sold on 28.12.04)

  - EUR 5 million: portion of goodwill for World Online International NV for company operations previously sold, as noted above (Switzerland, Austria, Sweden) and for Tiscali Norway AS, sold on 24.08.04.

• EUR 51.2 million due to ordinary amortisation provisions.

• EUR 26.6 million in impairment for the following goodwill figures: (i) Tiscali España, EUR 4.2 million for the adjustment to the overall estimated realisable value of the assets of the Spanish operating companies; (ii) Liberty Surf Group (France), EUR 5.9 million in relation to specific service activities for companies making up the French group. As mentioned elsewhere in these accounts, it should be noted that it is expected that the sale of this equity investment will result in a capital gain of over EUR 150 million; (iii) Tiscali International Network SA (TiNet SA), EUR 7.8 million, plus an amount of EUR 8.5 million (iv) for its subsidiaries (TiNet Spain, TiNet UK, TiNet Italy).

• EUR 0.2 million due to other movements.

For a better understanding of these accounts, the total consolidation difference by country is summarised below.

Denmark	12,016
France	72,161
Germany	80,636
Italy	6,108
Netherlands	31,430
UK	162,625
Czech Republic	1,602
Spain	10,599
South Africa	15,947
	393,124

II – Tangible assets

Changes during the year are summarised in the following table.

HISTORICAL COST	31.12.2003	INCREASES	DECREASES	OTHER CHANGES (*)	DEPRECIATION	31.12.2004
Land and buildings	34,552	696	(4,030)	(5,016)	-	26,202
Plant and machinery	400,176	69,332	(25,921)	(23,608)	-	419,979
Industrial and commercial equipment	3,073	-	(3,073)	-	-	-
Other tangible assets	143,737	9,472	(5,880)	(17,794)	-	129,535
Payments on account and tangible assets in course of acquisition	2,507	6,830	-	140	-	9,477
Total	**584,045**	**86,330**	**(38,904)**	**(46,278)**	**-**	**585,193**
DEPRECIATION PROVISIONS	**31.12.2003**	**INCREASES**	**DECREASES**	**OTHER CHANGES**	**DEPRECIATION**	**31.12.2004**
Land and buildings	3,605	-	(1,879)	(943)	682	1,465
Plant and machinery	228,336	-	(22,100)	(11,801)	72,042	266,477
Industrial and commercial equipment	2,305	-	(2,305)	-	-	-
Other tangible assets	103,247	-	(3,749)	(10,598)	10,521	99,421
Payments on account and tangible assets in course of acquisition	-	-	-	-	-	-
Total	**337,493**	**-**	**(30,033)**	**(23,342)**	**83,245**	**367,363**
NET BOOK VALUE	**31,12,2003**	**INCREASES**	**DECREASES**	**OTHER CHANGES**	**DEPRECIATION**	**31,12,2004**
Land and buildings	30,947	696	(2,151)	(4,073)	(682)	24,737
Plant and machinery	171,838	69,332	(3,821)	(11,807)	(72,042)	153,501
Industrial and commercial equipment	767	-	(767)	-	-	-
Other tangible assets	40,491	9,472	(2,131)	(7,196)	(10,521)	30,114
Payments on account and tangible assets in course of acquisition	2,507	6,830	-	140	-	9,477
Total	**246,550**	**86,330**	**(8,870)**	**(22,936)**	**(83,245)**	**217,829**

** Other changes include changes in the basis of consolidation, reclassifications and foreign exchange differences.*

"Land and buildings" included expenses for the construction of the parent company's offices in Cagliari totalling EUR 24.2 million; work on this project was completed in 2003. The EUR 2.1 million decrease in net book value was for divestitures made by the Dutch subsidiaries, while EUR 2.7 million of the EUR 4 million attributed to "other changes" was due to the deconsolidation of companies sold during the year, and in particular, the Belgian subsidiary.

The "plant and machinery" line totalling EUR 153.5 million largely included dedicated equipment and networks such as routers, servers, optical equipment and telephone exchanges that make up most of the tangible assets. The large increases were due to the process of expanding and maintaining network and access equipment. In particular, in 2004 investments of EUR 69.3 million were made, primarily for the implementation of the infrastructure needed to support ADSL service in the unbundled mode. These increases were largely attributable to the parent company, Tiscali BV, Netherlands and Liberty Surf Group SA. Finally, this line item included other changes of EUR 11.8 million, of which EUR 11.2 million was due to the deconsolidation of subsidiaries sold in 2004.

The "other tangible assets" line mainly included furnishings, IT and office equipment and vehicles. Increases were due to the normal replacement of this type of asset in the normal course of business. Furthermore, this line item included other changes of EUR 7.2 million, of which EUR 5 million was due to the deconsolidation of subsidiaries sold in 2004.

The total effect of the deconsolidation of companies sold on tangible assets was EUR 18.4 million, of which EUR 9.3 million was for Belgium and EUR 4.2 million for Switzerland. This effect was included in "other changes" as a change in the basis of consolidation.

III – Long-term investments

The breakdown of long-term investments is as follows.

LONG-TERM INVESTMENTS	31.12.2004	31.12.2003
Investments in:		
non-consolidated group companies	1,371	714
affiliated companies	1,271	66
other companies	12,708	12,547
Receivables		
from non-consolidated group companies	771	-
from others	2,038	8,038
Other long-term securities	533	-
Total	**18,692**	**21,365**

Equity investments in consolidated and non-consolidated subsidiaries and affiliated companies were valued at equity. These mainly included stakes held by Tiscali SpA in non-consolidated subsidiaries.

The change in investments in non-consolidated subsidiaries from the previous period was due to the valuation at equity of these companies.

The change in investments in affiliated companies from the previous period was primarily due to the valuation at equity of the 35% stake in STS (at a value of EUR 1.1 million) as at 31 December 2004. As at 31 December 2003, this company was fully consolidated since it was a subsidiary. The controlling interest was sold to third parties in 2004.

Investments in other companies primarily included the book value of EUR 12.7 million for the 0.3% stake owned by the Luxembourg subsidiary Tiscali Finance in H3G SpA, which operates in the third-generation mobile telephone sector in Italy (UMTS) under the brand name "3". This investment's performance in 2004, together with the current outlook for the sector in which it operates, led to the conclusion that the book value was a fair representation of the value of underlying assets.

Equity investments in other companies valued at cost relates to several small stakes held by Tiscali SpA. See the list of equity investments and the separate accounts of the parent company for more details.

Other receivables, all of which are payable after one year, relates to Eurolight Associates Ltd, which bought Tiscali's stake in the Czech company CD Telekomunikace Sro in 2003. At the time of the acquisition, the stake was transferred with the pre-existing debt owed by CD Telekomunikace to Tiscali SpA. The receivable, which has a book value of EUR 2 million, was written down by EUR 6 million during the year. The recovery of the receivable is tied to an agreement signed by Tiscali and CD Telekomunikace for the purchase of services (capacity, fibre optics) by the Tiscali subsidiary operating in that country. The estimated realisable value takes into account the time needed to purchase the services, and is affected significantly by the delay in the development of the fibre optic market in the Czech Republic in respect of what was reasonably projected at the end of the previous year.

C) Current assets

I – Inventories

At 31 December 2004, the group's inventories were worth EUR 2.7 million and consisted mainly of network equipment, consumables, telephone cards, goods for resale by the company's merchandise department, and modems.

INVENTORIES	31.12.2004	31.12.2003
Raw materials, supplies and consumables	955	3,171
Work in progress (products)	22	-
Contract work in progress	-	1,431
Finished goods	1,735	4,914
Payments on account	-	390
Total	**2,712**	**9,906**

II – Receivables

Receivables from customers

	31.12.2004	31.12.2003
Receivables from customers	150,150	173,152

Receivables from customers accrued from the sale of internet services, the invoicing of network access services, invoicing 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.

As at 31 December 2004, receivables from customers totalled EUR 150.1 million after write-downs totalling EUR 51.1 million. The EUR 23 million drop from 31 December 2003 was the result of the deconsolidation of companies sold (EUR 18.6 million) and the group's stringent efforts to collect outstanding receivables. In this regard, it should be noted that the collection period dropped from 58 days in 2003 to 46 days in 2004. This enabled the group to make better use of financial resources devoted to working capital.

A breakdown of receivables from customers by country is shown below.

Denmark	1,930
France	30,313
Germany	18,664
Italy	52,621
Netherlands	9,033
UK	23,488
Czech Republic	3,395
Spain	3,609
South Africa	7,097
	150,150

Receivables from non-consolidated customers

	31.12.2004	31.12.2003
Receivables from non-consolidated group companies	268	6.808

These totalled EUR 0.3 million, and refer to minor subsidiaries not included in the basis of consolidation.

Tax receivables

	31.12.2004	31.12.2003
Tax receivables	59,817	59,981

Tax receivables totalling EUR 59.8 million primarily included VAT credits and/or requests for VAT reimbursement for previous periods and were for the parent company (EUR 23.8 million), Liberty Surf Group SA (EUR 16.4 million), the German subsidiaries (EUR 10.1 million) and Tiscali UK (EUR 4.4 million). Specifically, requests have been made for the reimbursement of VAT receivables totalling EUR 15.6 million (including EUR 14.4 million for the parent company).

Deferred tax asset

	31.12.2004	31.12.2003
Deferred tax asset	158,495	52,221

Deferred tax assets originate as a result of previous tax losses carried forward. In line with accounting principles, these deferred taxes were recorded as it is believed that the conditions required have been met, and that it is reasonable to expect that the entities below can generate taxable income in future years, making it possible to recover the amount recorded to assets as at 31 December 2004. Projections are based on taxable income that can be generated with reasonable certainty based on approved business plans and the current performance of individual entities.

The accounting balance for the following Tiscali group companies was as follows.

• Deferred taxes of EUR 49 million booked in 2003 for Tiscali International NV and subsidiaries included in the consolidated Dutch tax position (especially the operating subsidiary Tiscali BV). The recovery of the deferred taxes reported is projected to occur over the next three years. Although the current position and outlook for future years would have made it possible to report a higher figure for deferred taxes, the circumstances of a tax audit currently under way is the opportunity to wait for a further consolidation of the results and therefore leave the amount reported in the previous period unchanged.

• Deferred taxes of EUR 1.2 million booked in 2003 in respect of Tiscali Pty (South Africa). The allocation made as at 31 December 2003 totalled EUR 2.5 million. As at 31 December 2004, EUR 1.3 million had been used to cover taxes calculated on taxable profit for 2004.

• Deferred taxes of EUR 63.2 million in 2004 for Tiscali UK. The UK subsidiaries had pre-tax income in 2004, but there were no tax charges as a result of tax deductible amortisation and depreciation charges. Note that accrued tax losses can be carried forward without limitation.

• Deferred taxes of EUR 45 million for the parent company, Tiscali SpA. These deferred taxes were reported during the financial year based on the reasonable certainty of Tiscali SpA generating taxable income in 2005, taking into account the capital gain of about EUR 163 million from the transfer transaction carried out in January 2005 and already described in the Report on operations and comments on equity investments in this section of the notes to the accounts. In this connection, it should be noted that with effect from 1 January 2005, following the transfer of its operating activities, Tiscali SpA acts solely as a holding company and only incurs general and administrative expenses. These expenses are easy to project, and thus, a taxable profit in 2005 is reasonably certain, and will allow for the recovery of the deferred taxes. As a result, the "recovery" of deferred taxes, with a charge to the profit and loss account, is expected to occur next year.

Carried forward tax losses deductible at the Tiscali group level are reported in the following table by year of occurrence.

YEAR OF OCCURRENCE	AMOUNT OF TAX LOSS	THEORETICAL TAX IMPACT (AVERAGE TAX RATE OF 30%)
1999 and previous years	36,519	10,956
2000	409,723	122,917
2001	988,836	296,651
2002	163,560	49,068
2003	216,091	64,827
2004 (*)	130,913	39,274
Total tax losses	1,945,642	
(a) Deferrd tax asset relating to tax losses		**583,692**
Temporary differences	276,289	
(b) Net deferred tax asset (charges) relating to temporary differences		**82,887**
Total deferred tax assets (a + b)		666,579
Reported deferred tax assets		(158,495)
Unreported deferred tax assets		508,084

(*) Estimate

It should be noted that the amount indicated above does not include tax losses from Tiscali group companies that were sold after the end of the financial year or from non-strategic companies that are likely to be sold.

Tax losses are primarily related to the parent company (EUR 848.4 million), Tiscali International BV (The Netherlands) (EUR 594.4 million), The UK subsidiaries (EUR 274.9 million) and German subsidiaries (EUR 217.8 million).

The table below shows the years carry forward tax losses expire.

YEAR OF EXPIRY	AMOUNT
No expiry	1,097,705
2005	33,331
2006	450,665
2007	46,806
2008	182,939
2009	134,196
	1,945,642

It should be stressed that the recording of deferred tax asset was limited to EUR 158.5 million, and thus, the remaining amount of EUR 508.0 million was not taken into account since Tiscali's directors took the prudent approach, based on the business plan for 2005-2007, that the requirement of reasonable certainty had not been met for reporting this amount (especially with regard to their estimated timing). The group therefore limited the reporting of benefits for those group companies that are now able to generate taxable profits to a reasonably short period of time.

Receivables from others

	31.12.2004	31.12.2003
Advances to employees	3,042	3,171
Other receivables	11,481	8,710
Total	**14,523**	**11,881**

The “advances to employees” item consists of EUR 3 million paid out to employees. This sum consisted of interest-bearing loans to directors and employees of the former World Online International Group provided in previous periods, before the company became part of the Tiscali group. In particular, the accounting balance included a loan of EUR 2.6 million to the current CEO of the Tiscali group, granted, as noted, in previous periods. A repayment schedule has been formally prepared for this loan.

Most of the other receivables of EUR 11.5 million are for the parent company (EUR 7.5 million). Of this amount, EUR 2.1 million was for the remaining receivable resulting from the sale of the Swiss subsidiary Tiscali AG, and is due in 2005.

A breakdown of receivables from others by country is shown below.

	TOTAL
Germany	226
Italy	8,863
Netherlands	5,300
UK	19
Czech Republic	115
	14,523

Breakdown of receivables by due date

The table below shows the amounts for each balance sheet item pertaining to receivables, broken down by due date.

		31.12.2004 RECEIVABLES FALLING DUE	
	UP TO ONE YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Receivables:			
Receivables from customers	150,150	-	-
Receivables from non-consolidated group companies	268	-	-
Tax receivables	59,817	-	-
Deferred tax assets	64,516	93,979	-
from others	14,496	27	-
Total	**289,247**	**94,006**	**-**

III – Investments other than non-current assets

The financial assets included in this item are detailed below:

INVESTMENTS OTHER THAN NON-CURRENT ASSETS	31.12.2004	31.12.2003
Other financial assets	25,846	69,038

“Other financial assets” include term deposits and/or escrow deposits as indicated below:

• escrow deposit of about EUR 6.3 million to secure the completion of the contract to sell the stake in Tiscali Pty (South Africa), which took place in February 2005.

• term deposits of EUR 3.7 million relating to outstanding disputes in respect of Tiscali International BV.

• other escrow deposits totalling EUR 7.2 million, including EUR 3.9 million in relation to Tiscali Finance SA for loans provided by third parties to other Tiscali group companies.

• deposits for leasing contracts and other financial assets totalling EUR 8.6 million.

The decrease compared to 31 December 2003 was mainly due to the settlement of various disputes and the realisation of certain financial assets over the period.

In particular, Tiscali International BV's outstanding dispute with Jean Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co was settled, and the related escrow account of EUR 21.4 million was released during the year. In addition, EUR 8.8 million in VAT credits (for which reimbursement had been applied for by the parent company) was collected in 2004, inter alia, while EUR 4.7 million in tax credits on dividends and EUR 3.9 million in IRPEG (corporate income tax) credits were used.

The decrease in this item was not the result of the deconsolidation of the companies sold.

IV – Cash and cash equivalents

Cash and cash equivalents break down as follows.

CASH AND CASH EQUIVALENTS	31.12.2004	31.12.2003
Bank and post office deposits	128,413	203,544

This item includes liquid resources in the form of cash, current accounts and negotiable money market instruments.

In particular, cash and cash equivalents included the financial resources attributable primarily to the following group companies: (i) Tiscali SpA (EUR 48.9 million), from the capital increase transaction that occurred at the end of the year and was subscribed by Société Generale; (ii) Liberty Surf Group (EUR 33 million), including EUR 14.5 million for investments in money market instruments that can be cashed on demand; (iii) Tiscali UK Ltd (EUR 17.4 million); (iv) Tiscali Finance SA (EUR 6.9 million); (v) Tiscali BV (EUR 6 million).

The reduction from EUR 203.5 million as at 31 December 2003 to EUR 128.4 million in 2004 was due to cash required for operating needs.

It should be noted that the use of the resources belonging to Liberty Surf Group for extraordinary operations (such as loans to the parent company and/or other Tiscali group companies) requires the approval of that company's Board of Directors, with reasons given for their decision. In July 2004, in compliance with these conditions, Liberty Surf Group provided the parent company Tiscali SpA with a loan of EUR 30 million, which was fully repaid in February 2005.

D) Accrued income and deferred charges

Accrued income and deferred charges break down as follows.

ACCRUED INCOME AND DEFERRED CHARGES	31.12.2004	31.12.2003
Accrued income		
Bank interest	79	176
Other accrued income	32,154	39,941
Total	**32,233**	**40,117**
Deferred charges		
Rentals	3,255	120
Pre-paid expenses	116,593	50,675
Total	**119,848**	**50,795**
Total	**152,081**	**90,912**

Accrued income

Accrued income relates to revenues from ADSL and IRU agreements and other services.

In particular, of the EUR 32.2 million in accrued income, EUR 6.1 million was primarily attributable to TiNet France, EUR 20.2 million to Tiscali UK Ltd and EUR 3.7 million to Tiscali BV.

The fall of EUR 7.9 million compared to end-2003 was chiefly due to the deconsolidation of companies sold (EUR 6.1 million) and the optimisation of the billing process, particularly for certain types of ADSL contracts.

Deferred charges

"Deferred charges" primarily include deferments of the portion of costs not applicable in 2004 that were incurred for the activation of ADSL services (EUR 81.8 million) and deferred over a period of 36 months (the same period as the average estimated length of customer contracts). The accounting balance as at 31 December 2004 was also for deferred costs associated with the multi-year rental of lines pertaining to international circuit agreements totalling EUR 11.5 million, deferred charges on operating leases of about EUR 5 million and hardware and software maintenance costs of EUR 10 million.

The significant increase of EUR 69 million versus year-end 2003 was primarily due to the sharp increase in ADSL service volumes (new contracts) totalling EUR 51.3 million. This increase was also affected by the deconsolidation of the companies sold to the tune of EUR 3 million.

Liabilities and shareholders' Equity

A) Shareholders' equity

The table below sets out changes in shareholders' equity.

SHAREHOLDERS' EQUITY	SHARE CAPITAL	SHARE PREMIUM RESERVE	CURRENCY TRANSLATION RESERVE	UNDISTRIBUTED PROFITS (LOSSES) OF SUBSIDIARIES	NET PROFIT (LOSS) FOR THE YEAR	TOTAL	MINORITY INTERESTS	TOTAL
Balance as at 31.12.02	**180,867**	**1,632,896**	**(28,613)**	**(575,977)**	**(593,145)**	**616,028**	**16,309**	**632,337**
Increases	3,593	26,086	-	19,532	(242,448)	(193,237)	(9,973)	(203,210)
Transfers	-	(152,297)	-	(440,848)	593,145	-	-	-
Currency translations	-	-	(3,571)	-	-	(3,571)	-	(3,571)
Balance as at 31.12.03	**184,460**	**1,506,686**	**(32,184)**	**(997,294)**	**(242,448)**	**419,220**	**6,336**	**425,556**
Increases	12,159	48,723	-	-	(159,466)	(98,584)	(1,906)	(100,490)
Transfers	-	(114,535)	-	(127,914)	242,448	-	-	-
Currency translations	-	-	(1,416)	(8,040)	-	(9,456)	163	(9,293)
Balance as at 31.12.04	**196,619**	**1,440,874**	**(33,600)**	**(1,133,248)**	**(159,466)**	**311,179**	**4,593**	**315,772**

As at 31 December 2004, shareholders' equity totalled EUR 315.8 million.

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.

The capital increases of the parent company are detailed below:

• capital increase subscribed (919,378 shares issued) in exchange for a EUR 3.2 million loan granted to Simon Luel (the representative of Jean Philippe Illiesco De Grimaldi)

• capital increase subscribed (1,060,249 shares issued) in exchange for a EUR 5 million receivable due to Via NetWork UK Ltd

• capital increase subscribed (3,604,899 shares issued) in exchange for the EUR 2 million acquisition of the entire share capital of EuNet EDV und internet Dienstleistungs AG

• capital increase subscribed (333,189 shares issued) in exchange for the EUR 0.5 million acquisition of the entire share capital of Home.se AB

• capital increase subscribed (18,400,000 shares issued) and paid up by Société Générale in respect of the amount of EUR 50 million on 30 December 2004.

In addition, EUR 114.5 million of the share premium reserve was used to cover the parent company's losses made in 2003, as approved at the extraordinary shareholders' meeting of Tiscali SpA held on 6 May 2004 at the time the accounts for the year ending 31 December 2003 were approved.

Changes to the currency translation reserve are chiefly due to fluctuations in the euro/sterling and euro/rand exchange rates.

The increase in subsidiaries' undistributed profits (losses) was attributable to losses not covered by the share premium reserve pertaining to indirectly-owned subsidiaries.

The table below shows the reconciliation of the parent company and consolidated accounts.

Statement of changes in shareholders' equity

	31.12.2004		31.12.2003	
	NET PROFIT (LOSS)	SHAREHOLDERS' EQUITY	NET PROFIT (LOSS)	SHAREHOLDERS' EQUITY
Tiscali SpA	**(489,778)**	**1,147,715**	**(114,535)**	**1,576,612**
Elimination of effects of transactions between consolidated companies:				
- Cancellation of write-downs of investments in subsidiaries	453,824	450,697	60,438	21,925
- Deconsolidation of equity investments sold	(8,077)	(8,077)	-	-
Effects of the change in harmonisation of group accounting policies, after tax adjustments:				
- Application of financial method for assets leased from third parties	(2,943)	6,609	(11,332)	18,734
- Valuation at equity of companies recorded on the balance sheet at cost	548	1,757	-	-
Book value of consolidated equity investments	**-**	**(961,408)**	**-**	**(1,425,228)**
Shareholders' equity and net profit of consolidated companies	**(9,969)**	**(699,640)**	**(118,425)**	**(277,224)**
Allocation of differences to the assets of consolidated companies and relating depreciation and amortisation:				
- Tangible assets	-	-	-	-
- Consolidation difference	(73,880)	393,124	(72,063)	504,401
Effect of other adjustments:				
- Group restructuring and other adjustments	-	-	13,469	-
- Other adjustments	(29,191)	(19,599)	-	-
CONSOLIDATED FINANCIAL STATEMENTS - group	**(159,466)**	**311,179**	**(242,448)**	**419,220**
CONSOLIDATED FINANCIAL STATEMENTS - minorities	**(1,906)**	**4,593**	**(3,534)**	**6,336**
CONSOLIDATED FINANCIAL STATEMENTS	**(161,372)**	**315,772**	**(245,982)**	**425,556**

B) Provisions for risks and future liabilities

This reserve consists of:

PROVISIONS FOR RISKS AND FUTURE LIABILITIES	31.12.2003	PROVISIONS	AMOUNTS USED	OTHER CHANGES	31.12.2004
Other provisions for risks and future liabilities	27,011	11,000	(15,917)	47	22,141
Total	**27,011**	**11,000**	**(15,917)**	**47**	**22,141**

As at 31 December 2004, this reserve totalled EUR 22.1 million and consisted primarily of the following elements:

• EUR 8.1 million for outstanding disputes at Liberty Surf Group (EUR 2.5 million for litigation on leasing contracts, EUR 2.7 million for commercial and tax litigation and other minor matters)

• EUR 4.2 million for the commercial dispute arising between Tiscali International Network SA and Dinergy

• EUR 2.5 million to cover contractual guarantees issued to purchasers of the companies sold in 2004. To date, no significant requests have been put forward by the other parties. However, in the interests of caution, and to comply with the accruals principle, it was deemed appropriate to take into account potential adjustments to payments (even if on a lump-sum basis) and to capital gains reported in 2004

• EUR 2.1 million to cover charges resulting from the sale of Best Engineering (sold in January 2005)

• EUR 2.9 million to cover charges relating to the UK subsidiaries' unleased properties.

The EUR 15.9 million amount used covered: the settlement of the dispute with Philippe Illiesco de Grimaldi and Illiesco de Grimaldi & Co. (EUR 3 million, in line with the provision reported as at 31 December 2003); the settlement of outstanding lawsuits by the German subsidiary (EUR 2.6 million); the UK subsidiary's settlement in May 2004 of the dispute with I-Way (EUR 5.7 million); the settlement of other minor disputes.

C) Staff severance fund

The table below sets out changes for the year.

STAFF SEVERANCE FUND	31.12.2003	PROVISIONS	AMOUNTS USED	OTHER CHANGES	31.12.2004
Total	10,850	6,205	(7,840)	1,595	10,810

The staff severance fund, which includes accrued benefits primarily for office staff, totalled EUR 10.8 million, and largely related to the parent company (EUR 5.4 million) and French subsidiary Liberty Surf Group SA (EUR 2 million).

Amounts used totalled EUR 7.8 million, and covered the payment of severance benefits to employees of Liberty Surf Group SA.

The deconsolidation of companies sold had no effect on the staff severance fund.

D) Payables

Bonds

	31.12.2004	31.12.2003
Bonds	459,887	540,684

This item, totalling EUR 459.9 million, includes the following:

ISSUER	NOMINAL VALUE (EUR MILLION)	ISSUE DATE	COUPON	MATURITY	GUARANTOR
Tiscali Finance SA	250	July 2000	Euribor + 3.25%	July 2005	Tiscali SpA
Tiscali Finance SA	209.5	September 2003	4.25%	September 2006	Tiscali SpA
Tiscali UK Holdings plc	0.4	-	-	On request	Tiscali International BV
Total	**459.9**				

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 feature. 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, but only at maturity, the difference between the conversion price and the market price would have to be made up by the issuer. The bond will be convertible from September 2004, although in this instance any difference between the conversion price above and the Tiscali share's market price will not be made up.

• Covenants on bonds maturing in 2005

The bonds maturing in 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 or iii) 2.5x consolidated shareholders' equity

Since gross debt as at 31 December 2004 was lower than EUR 600 million (EUR 563.8 million) even if loan payments due to shareholders are taken into account (EUR 32.5 million), this covenant was respected. Also, for completeness, it should be noted that shareholders' equity at 31 December 2004 was EUR 315.8 million, the ratio between this figure and gross debt also meets the established requirements.

Interest on the bonds mature on the basis of 3-month Euribor plus a spread. Swap contracts have been entered into to hedge against interest rate risk.

At 31 December 2004 the following contracts were in force:

- *Interest rate swap agreement entered into with Banca Intesa SpA on 31 July 2003, with a notional value of EUR 162.5 million.*

- *Interest rate swap agreement entered into with Banca IMI SpA 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 have been taken out as part of the company's strategy, of hedging interest rate risk, and expire on the same date as the underlying bond. These derivatives have been reported at "fair value."

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.

Loans due to shareholders

	31.12.2004	31.12.2003
Loans due to shareholders	32,500	-

In 2004, the shareholders Andalas Limited and Emasan AG (Sandoz Family Foundation) granted interest-bearing loans at market rates to the group of EUR 27.5 million and EUR 5 million respectively. The loans were made at a time of major expansion for the group, and were needed to support investment in rolling out the unbundled network infrastructure, as well as Tiscali's refinancing strategy.

It should be stressed that the agreement for the loan provided by Andalas Limited specifically provides for the loan's subordination to other Tiscali group debt, until the repayment of the bonds.

Due to banks

	31.12.2004	31.12.2003
Overdrafts	21,565	37,992
Medium- and long-term bank loans	40,656	33,503
Total	**62,221**	**71,495**

The amounts due to banks included overdrafts necessary to cover liquidity requirements resulting from operations as well as the medium-/long-term financing under the mortgage obtained (at CIS Bank in Cagliari) to build the new SA Illetta premises in Cagliari.

Medium- and long-term bank loans included EUR 34.8 million for the mortgage obtained by the parent company as noted above, of which EUR 4.2 million was the current portion. This loan is backed by a EUR 70 million mortgage guarantee on the property.

The balance for this item also included a EUR 5 million loan granted by EDC (Export Development Canada). The loan terms provide for a total amount of up to EUR 20 million over four years, for the purchase of NORTEL equipment used in Italy for the ULL project. The loan agreement includes a covenant requiring the ratio of shareholders' equity to total assets to be over 0.20. As at 31 December 2004 the ratio in question was 0.21, and thus, in line with contractual provisions.

A breakdown of bank debt by country is shown below.

	TOTAL
France	683
Italy	56,434
Netherlands	4,992
Czech Republic	112
	62,221

Due to other financial institutions

	31.12.2004	31.12.2003
Due to other financial institutions	41,674	43,551

“Payables to other financial institutions” include payables to leasing companies for capitalised financial leasing agreements. These payables totalled EUR 41.7 million, of which EUR 19.1 million are due after one year. The agreements chiefly relate to networks, servers and other equipment used directly in the production process. It should be noted that a framework loan agreement was entered into in 2004, involving a three year financial leasing arrangement with Cisco Capital, up to a total amount of EUR 29 million. This funding is to be used to purchase Cisco Systems equipment as a part of the investment projects of group companies. As at December 2004, approximately EUR 20 million had been used, including EUR 11 million in The Netherlands and EUR 6 million in Italy.

Payables to suppliers

	31.12.2004	31.12.2003
Payables to suppliers	317,956	310,647

“Payables to suppliers” mainly refer to the provision of content and telephone and data traffic services. This balance did not change significantly from year-end 2003 taking into account the effect resulting from the deconsolidation of companies sold (EUR 23.3 million) and the increase due to growth in the group’s operations and the relating direct variable costs.

Average payment terms fell from 139 days in 2003 to 130 days in 2004.

Specifically, the year-end 2004 balance included a payable of EUR 40.8 million for the purchase of IRUs, as part of the investments made on the ULL project in previous periods. Of this amount, EUR 26.6 million is repayable over the medium and long term. For further information, see the summary of payables by maturity provided below.

A breakdown of payables to suppliers by country is shown below.

	TOTALE
Denmark	4,553
Finland	1
France	88,284
Germany	13,931
Italy	147,948
Netherlands	34,613
UK	10,990
Czech Republic	2,960
Spain	7,842
South Africa	6,834
	317,956

Payables to non-consolidated subsidiaries and affiliated companies

	31.12.2004	31.12.2003
Payables to non-consolidated subsidiaries	2,064	2,210
Payables to affiliated companies	-	54
Total	**2,064**	**2,264**

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

	31.12.2004	31.12.2003
Taxes payable	32,398	29,055

Taxes payable break down as follows:

TAXES PAYABLE	31.12.2004	31.12.2003
Corporate income tax and other taxes	507	3.876
VAT payables to the Treasury	27,164	17,773
Payables for advance withholding tax	361	413
Payables for employee withholding tax	4,366	6,993
Total	**32,398**	**29,055**

The fall in “corporate income tax and other taxes” relates to adjustments made during the year. “VAT payables rose by EUR 9.3 million to EUR 27.2 million due to the increase in group revenues, after taking into account the effect of deconsolidation of companies sold (EUR 3.6 million).

Payables to social security authorities

	31.12.2004	31.12.2003
Due to social security authorities	12,275	10,729

“Payables to social security authorities” of EUR 12.3 million were up slightly on the previous year, and included pension contributions made by the company and employees, and voluntary and compulsory social security and industrial accident insurance contributions.

Other payables

	31.12.2004	31.12.2003
Other payables	31,169	36,148

Other payables break down as follows.

OTHER PAYABLES	31.12.2004	31.12.2003
Payables to directors (emoluments)	13	517
Payables to employees (accrued holiday pay)	6,150	5,326
Miscellaneous payables	25,006	30,305
Total	**31,169**	**36,148**

“Miscellaneous payables” included security deposits, advances from customers and other payables.

A breakdown of miscellaneous payables by country is shown below.

	TOTAL
Denmark	1,602
France	2,796
Germany	2,437
Italy	9,296
Netherlands	7,318
UK	1,073
Czech Republic	271
Spain	10
South Africa	6,366
	31,169

Breakdown of payables by due date

The table below shows the amounts for each balance sheet item pertaining to payables, broken down by due date.

	31.12.2004 PAYABLES FALLING DUE		
	UP TO ONE YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Payables:			
Bonds	250,387	209,500	-
Loan payments due to shareholders	-	32,500	-
Due to banks	25,747	36,474	-
Due to other financial institutions	22,523	19,151	-
Payables to suppliers	291,285	19,403	7,268
Payables to non-consolidated group companies	525	1,539	-
Taxes payable	32,398	-	-
Due to social security authorities	12,275	-	-
Other payables	29,078	2,091	-
Total	**664,218**	**320,658**	**7,268**

E) Accrued liabilities and deferred income

Accrued liabilities and deferred income break down as follows.

ACCRUED LIABILITIES AND DEFERRED INCOME	31.12.2004	31.12.2003
Accrued liabilities		
Interest expense	7,836	9,566
Accrued payments (employees)	3,992	2,828
Accrued holiday bonuses	2,862	3,234
Other accrued expenses	53,327	61,984
Total	**68,017**	**77,612**
Deferred income		
Pre-paid internet services	78,254	63,778
Other deferred income	20,861	11,881
Total	**99,115**	**75,659**
Grand total	**167,132**	**153,271**

Accrued liabilities

Accrued liabilities mainly consist of operating expenses, such as payments for content, network access costs, consultancy fees and line rental costs.

Deferred income

Deferred income for pre-paid internet services included EUR 25.1 million in revenues applicable to other periods for the activation of ADSL services, and deferred over a period of 36 months (the same as the average estimated length of customer contracts).

Deferred income mainly included the deferment to future periods of portions of non-applicable revenues generated under IRU contracts (line leasing) entered into by Tiscali International Network SA (EUR 37.1 million) and by Tiscali International Network Spain (EUR 8.8 million). Revenues are reported on the profit and loss account on a pro rata basis in accordance with contract terms (usually 15-18 years).

The EUR 23.4 million rise in deferred income from year-end 2003 was mainly due (EUR 16.4 million) to the increase in the number of contracts for the sale of ADSL services.

Memorandum accounts

"Guarantees received" (EUR 0.9 million) take the form of surety bonds issued by suppliers to guarantee the provision of services in accordance with contractual obligations.

Commitments totalling EUR 1.9 million were mainly relating to an obligation made to the tax authorities for the settlement of group VAT liabilities (EUR 1.3 million).

Guarantees given took the form of surety bonds totalling EUR 32.7 million, including EUR 12.9 million issued to the tax office for VAT refunds applied for, and the remainder were issued to guarantee supplier contracts awarded to the Tiscali group.

Profit and loss account

A) Value of production

Breakdown of value of production

VALUE OF PRODUCTION	31.12.2004	31.12.2003	CHANGE
Access	730,403	612,933	117,470
Voice	88,332	70,394	17,938
Business	205,951	161,240	44,711
Portal	45,782	47,222	(1,440)
Other revenues	10,092	9,233	859
Total	**1,080,561**	**901,022**	**179,539**

For 2004, the group reported consolidated revenues of EUR 1,080.6 million, a 20% increase over the year-end 2003 figure of EUR 901 million. Growth was driven by the access services, again confirmed as the Tiscali group's main source of revenues, representing 68% of the total, followed by business services with 19%, voice services with 8% and portal services with 4%.

Access

At year-end 2004 Tiscali had 1.65 million ADSL users, almost double (+97%) the end-2003 figure of 840,000. The number of active users totalled 7.4 million, of which 5.7 million are dial-up users.

Dial-up user numbers declined versus the previous year, due largely to the change in the basis of consolidation and migration to broadband services, which was in line with the group's strategy to support the focus on the growth of ADSL customers in unbundled mode in key countries.

Despite the deconsolidation of companies in Austria, Norway, Sweden and Switzerland, access revenues (68% of the total) were up by 19% from EUR 612.9 million in 2003 to EUR 730.4 million in 2004. In line with the group's strategy of focusing assets on products offering the best growth and profitability opportunities, the revenue mix changed during the year, with ADSL services accounting for an increasing proportion.

As a result of the above, and in keeping with market trends, **dial-up** revenues were down 11% from EUR 469.6 million in 2003 to EUR 417.9 million. This reduction was due to a decline in traffic from 43.5 billion minutes in 2003, to 35.3 billion in 2004, as well as the migration from dial-up to ADSL services. **ADSL** revenues rose sharply from EUR 143.3 million in 2003 to EUR 312.5 million, thereby confirming the rising importance of ADSL services and the substantial change in revenue mix in the access business. During the year, ARPU (Average Revenue Per User) remained nearly constant at EUR 20 at the end of December, which was down slightly from the previous year.

Revenues in the ADSL access segment in the five key countries represent a significant percentage (84%) of revenues. Growth in the ADSL user base was also largely attributable to these five main countries.

Voice services

Voice services generated revenues of EUR 88.3 million, a 25% increase over the EUR 70.4 million for 2003. This business area's percentage of total revenues (8%) remained unchanged from the previous year. The increase in revenues was due solely to organic growth generated by redefining sales policy and offering a different mix of services with a growing percentage of business coming from the resale of wholesale telephone services and long-distance calls to EU countries.

Business services

In 2004, **business service** revenues stood at EUR 205.9 million, a 28% advance on 2003 (EUR 161.2 million), thanks to the group's expanded range of products and services.

Business services represent 19% of total revenues compared to 18% for the previous year. The increase in revenues was due solely to organic growth brought about by a sharper sales focus and a different mix of services offered.

Portal

In 2004, portal services represented 4% of total revenues. These revenues totalled EUR 45.8 million, which was down by 3% from 2003. This decrease was primarily due to Tiscali's departure from non-core countries. Portal revenues dropped from 5% of total revenues in 2003, to 4% in 2004. At the same time, there was an increase in advertising revenues in key countries.

A breakdown of value of production by country is shown below.

	TOTAL
Austria	14,528
Belgium	30,197
Denmark	22,000
Finland	597
France	224,357
Germany	91,710
Italy	192,456
Luxembourg	2,354
Norway	9,336
Netherlands	87,064
UK	250,852
Czech Republic	20,609
Spain	21,160
South Africa	60,504
Sweden	12,466
Switzerland	15,682
Tiscali International Network	24,689
	1,080,561

Non-EU revenues totalled EUR 81.1 million, and were generated in The Czech Republic (EUR 20.6 million) and South Africa (EUR 60.5 million).

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

Revenues also included EUR 24.7 million for the operations of Tiscali International Network.

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, equipment for pre-paid telephone cards, goods intended for resale and modems.

Services costs

Breakdown of costs for the provision of services

SERVICES COSTS	31.12.2004	31.12.2003	CHANGE
Line rental	325,095	192,892	132,203
Purchase of traffic	186,261	173,814	12,447
Installation	14,834	5,815	9,019
Content	5,571	2,544	3,027
Portal services	4,362	7,250	(2,888)
Call centres	18,293	27,716	(9,423)
Other direct costs	28,136	31,621	(3,485)
Advertising and promotional expenses	121,785	138,372	(16,587)
Maintenance	23,719	21,504	2,215
Selling costs	1,823	1,561	262
Utilities	2,883	3,573	(690)
Bank and postal charges	-	11	(11)
Business travel	5,670	7,778	(2,108)
Insurance	1,407	1,286	121
Other services	35,131	25,662	9,469
Total	**774,970**	**641,399**	**133,571**

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 2004, it rose to 42% as a proportion of total services costs as a result of growth in ADSL and FRIACO dial-up user numbers. The item represents 30% of total revenues. Compared to the previous year, the reduction in cost in percentage terms was due to the extension of the proprietary network. In addition, the group's restructuring has already delivered significant savings, with no change in transmission capacity.

• **Purchase of traffic**. This cost item jumped 7% versus the previous year to EUR 186.3 million, because of growth in the number of traffic minutes and dial-up connections.

• **Installation costs.** These costs, at EUR 14.8 million, were up on the previous year. However, installation costs are closely connected to installation revenues (a component of broadband revenues), which grew significantly in 2004.

• **Advertising and promotional costs.** In 2004, marketing costs fell from EUR 140 million in 2003 to EUR 123.6 million in 2004 (-12%). They also fell as a percentage of revenues, from 16% in 2003, to 11% this time. Marketing activities during the year focused on new ADSL access products.

• **Maintenance.** This item came to around EUR 23.7 million, and was largely spent on maintenance fees for network equipment and software. Maintenance costs accounted for 3% of total services costs and 2% of revenues. The increase in maintenance costs compared to last year is a direct consequence of the group's increased investment in this area.

Personnel costs

Personnel costs rose by 10% from EUR 142.1 million in 2003 to EUR 156.6 million in 2004. This item accounted for 14% of total revenues, compared to 16% in 2003. As at 31 December 2004 there were 3,137 employees compared to 3,226 in 2003.

Other operating expenses

OTHER OPERATING EXPENSES	31.12.2004	31.12.2003	CHANGE
Losses on receivables not covered by reserves	-	2,582	(2,582)
Other minor charges	7,718	5,448	2,270
Total	**7,718**	**8,030**	**(312)**

This item, which totalled EUR 7.7 million, mainly consists of telephone license costs in Italy and the UK, plus other minor expenses.

C) Financial income and charges

Financial income

FINANCIAL INCOME	31.12.2004	31.12.2003	CHANGE
From securities listed under non-current assets other than equity investments	393	303	90
From receivables listed under non-current assets	8	32	(24)
Total	**401**	**335**	**66**
Income other than the above:			
From non-consolidated group companies	35	-	35
From third parties:			
Interest earned from banks	18,665	42,432	(23,767)
Interest earned on other securities	299	574	(275)
Interest from customers	17	2	15
Other financial income	3,409	1,377	2,032
Total income from third parties	**22,391**	**44,384**	**(21,993)**
Total financial income	**22,827**	**44,719**	**(21,892)**

"Interest earned from banks" refers to cash investments, mostly made by Tiscali Finance SA (EUR 13.8 million) and Tiscali BV (EUR 2.7 million), and gains on swap contracts taken out by Tiscali Finance in respect of its bond liabilities.

Interest and other financial charges

INTEREST AND OTHER FINANCIAL CHARGES	31.12.2004	31.12.2003	CHANGE
Paid to third parties:			
Bonds	50,514	26,290	24,224
Medium-/long-term financing	-	7,107	(7,107)
Due to banks for medium-/long-term loans	-	-	-
Due to other financial institutions	2,919	2,103	816
Payables to suppliers	583	161	422
Other payables	1,803	1,313	490
Losses on short-term transactions	-	34,705	(34,705)
Other	3,969	876	3,093
Total	**59,789**	**72,555**	**(12,766)**
Paid to subsidiaries	**1,455**	**26**	**1,429**
Total interest and other financial charges	**61,244**	**72,581**	**(11,337)**

Interest and other financial charges totalled EUR 61.2 million, and were primarily related to the subsidiary Tiscali Finance SA (EUR 43.9 million) for interest and charges resulting from swap contracts relating to bonds. Other financial charges relate to bank debt and interest on financial leasing operations.

The following table summarises financial income and charges from bonds and underlying derivatives (interest and economic impact of valuation at fair value).

	31.12.2004	31.12.2003	CHANGE
Swap-related financial income	13,549	35,419	(21,870)
Swap-related financial charges	(18,149)	(32,186)	14,037
Impact of swap valuation at fair value	2,881	(2,446)	5,327
Total for swaps	**(1,719)**	**787**	**(2,506)**
Total bond-related financial charges	**(24,915)**	**(26,290)**	**1,375**
Total	**(26,634)**	**(25,503)**	**(1,131)**

Exchange rate gains and losses

EXCHANGE RATE GAINS AND LOSSES	31.12.2004	31.12.2003	CHANGE
Exchange rate gains and losses	755	7,273	6,158
Total	**755**	**7,273**	**6,158**

As at 31 December 2004, exchange rate gains and losses included an increase of EUR 1.8 million and a reduction of EUR 1.1 million. “Adjustments on exchange rates” mainly concerned movements in the EUR/GBP and EUR/ZAR exchange rates in respect of UK subsidiaries’ dealings with other group companies and/or suppliers and customers.

In 2003 exchange rate gains and losses were reported respectively under the following items: “positive adjustments on exchange rates” (EUR 8.6 million) and “exchange rate losses” (EUR 1.3 million). These items combined resulted in a net increase of EUR 7.3 million.

With regard to the Tiscali group’s foreign exchange operations, note that as a part of the negotiations for the sale of the subsidiary Tiscali Pty (South Africa) in August 2004, Tiscali International BV entered into a contract to hedge the foreign exchange risks tied to the local currency (the rand) in light of its volatility.

The amount hedged equated to the sale price of the internet and mobile telephone businesses (365 million rand), and the timing for the hedge was determined on the basis of the expected collection date (and was subsequently revised following delays in approval being granted by the South African competition regulator). However, the fair value of the derivative concerned did not differ from the value determined on the date the contract was signed.

D) Adjustments to the value of financial assets

Adjustments in to the value of financial assets included the income generated by the valuation at equity of non-consolidated minority investments belonging to the parent company.

E) Extraordinary income and charges

Extraordinary income

Extraordinary income items are shown below.

EXTRAORDINARY INCOME	31.12.2004	31.12.2003	CHANGE
Correction of errors booked in previous years	871	-	871
Other extraordinary income	14,172	61,603	(47,431)
Total	**15,043**	**61,603**	**(46,560)**
Capital gains on disposals of non-current assets			
Capital gains on disposals of intangible assets			
Capital gains on disposals of tangible assets	1,017	29	988
Capital gains on disposals of long-term investments/equity investments	31.840	947	30,893
Other extraordinary gains	3,146	-	3,146
Total	**36,003**	**976**	**35,027**
Grand total	**51,046**	**62,579**	**(11,533)**

"Extraordinary income," which totalled EUR 15 million, included EUR 9.1 million in miscellaneous contingent assets, including EUR 3.3 million in excess valuations in the reporting of network costs that were allocated at the end of the previous year by Tiscali International Network.

This balance also included EUR 4.7 million from offsets of intragroup entries relating to agreements for the sale of certain subsidiaries in 2004.

"Capital gains on disposal of non-current assets," which totalled EUR 36 million, mainly included the following capital gains from the sale of equity investments:

- EUR 11 million from the sale of Tiscali AS
- EUR 6.4 million from the sale of Tiscali Austria
- EUR 3.2 million from the sale of Tiscali Norway
- EUR 9.3 million from the sale of Tiscali Belgium
- EUR 3.4 million from the sale of Tiscali Luxembourg.

Extraordinary charges

Extraordinary charges are detailed in the table below.

EXTRAORDINARY CHARGES	31.12.2004	31.12.2003	CHANGE
Redundancy costs	2,062	13,322	(11,260)
Restructuring costs relating to contracts terminated early	3.313	8,752	(5,439)
Restructuring costs relating to tangible assets	9.657	1,170	8,487
Other restructuring costs	22,634	24,115	(1,481)
Total restructuring costs	**37,666**	**47,359**	**(9,693)**
Other extraordinary charges	**64,689**	**60,101**	**4,588**
Total	**102,355**	**107,460**	**(5,105)**
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	(19)
Capital losses on disposals of other non-current assets	16,920	-	16,920
Other extraordinary losses	44,235	530	43,705
Total	**61,155**	**1,975**	**59,180**
Grand total	**163,510**	**109,435**	**54,075**

Extraordinary charges included EUR 37.6 million for the reorganisation process that began in 2004 following the implementation of the strategy to focus business on “key countries” and the simultaneous launch of the process to make further improvements in the efficiency of company processes. In this regard, the group incurred staff-related restructuring costs (EUR 2 million), charges for the early termination of several contracts (EUR 3.3 million) and restructuring costs and charges relating to intangible assets (EUR 9.6 million), taking into account the revision of the strategic plan. Other restructuring charges also included EUR 10.8 million for the cancellation of several property leases after determining the space needed for the group’s operations. These charges were for subsidiaries in The UK (EUR 3.3 million), and The Netherlands (EUR 2.1 million), and for Tiscali International BV (EUR 5.4 million).

Similar to extraordinary income, other extraordinary charges of EUR 64.6 million included EUR 21.6 million in charges to offset intragroup accounting entries relating to agreements for the sale of certain subsidiaries in 2004. This item also included EUR 11.2 million for adjustments to amortisation (on IRU agreements) applicable to previous periods, EUR 4.6 million for the adjustment of costs unallocated at 31 December 2003 relating to the standardisation of the accounting procedure for ADSL services, and extraordinary charges of EUR 8.5 million relating to previous periods concerning a VAT inspection at the German subsidiaries in 2004.

In addition, this item included EUR 12.1 million in charges relating to miscellaneous contingent liabilities from previous years. Finally, an additional amount of EUR 6 million was for an adjustment to the receivable from Eurolight Associates Ltd. (which is classified among long-term investments) concerning operations in The Czech Republic. This adjustment was the result of the valuation of the receivable in the context of the group’s new organisational structure.

“Capital losses on disposals of long-term investments,” which totalled EUR 16.9 million, related entirely to the Swiss subsidiary Tiscali AG.

The balance of "other extraordinary losses" mainly included the posting of the estimated effects resulting from the probable sale of assets belonging to Tiscali International Network SA (see the relevant section in the Report on operations) worth EUR 30.4 million (including EUR 15.4 million for goodwill).

The capital losses concerned also included the estimated effect of the likely sale of assets held in Spain (EUR 4.2 million), as well as other extraordinary items relating to disposals that have already taken place and/or are pending (EUR 2.1 million in respect of the sale of Best Engineering SpA).

Deferred taxes

The balance was for the amount recorded concerning the parent company and The UK subsidiaries. For more information please refer to the notes on deferred taxes (balance sheet).

Other information

The table below shows a breakdown of employees by category.

NUMBER OF EMPLOYEES BY CATEGORY	31.12.2004	31.12.2003
Senior managers	142	146
Middle managers	488	505
Office staff	2,487	2,551
Manual workers	20	24
Total	**3,137**	**3,226**

List of holdings

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

DENOMINAZIONE	COUNTRY	% HELD DIRECTLY	INDIRECTLY	TOTAL STAKE	BUSINESS	CONSOLIDATION METHOD
Tiscali SpA	Italy				Internet & Telecoms	G
Best Engineering SpA	Italy	60.0%		60.0%	Software devt	G
Connect Software Inc	USA		100.0%	100.0%	Inactive	E
Energy Byte Srl in liquidation (since 11-3-2004)	Italy	100.0%		100.0%	Portal	E
Excite Italia BV	Neth	100.0%		100.0%	Portal	E
Excite Italia	Italy		100.0%	100.0%	Portal	G
Ideare SpA	Italy	60.0%		60.0%	Software devt	E
Quinary SpA	Italy	85.0%		85.0%	Software devt	G
STS Studi Tecnologie Sistemi SpA (1)	Italy	20.0%	15.0%	35.0%	Software devt	E
Tiscali Czech Republic AS	Czech Rep.	100.0%		100.0%	Internet	G
Tiscali Media Srl	Italy	100.0%		100.0%	Holding co	G
Tiscali Motoring Srl in liquidation	Italy	60.0%		60.0%	Portal	E
Tiscali Telecomunicaciones SA	Spain	99.99%		99.99%	Internet	G
Tiscali Services Srl (formerly TITS Srl)	Italy	100.0%		100.0%	Information Technology	G
Tiscali Italia Srl (formerly Andaledda SpA)	Italy	100.0%		100.0%	Inactive	E
Tiscali Business Service SpA (formerly Nextra SpA)	Italy	100.0%		100.0%	B2B	G
Gilla Servizi Telecomunicazione Srl	Italy	20.0%		20.0%	Call Centre	E
FreeTravel in liquidation SpA	Italy	50.0%				E
Ariete Telemedia Srl	Italy	40.0%				
Janna SCpa	Italy	33.0%				E
Netchemya in liquidation SpA	Italy	20.0%				
Stud Scarl	Italy	33.3%				E
CRS4 Scarl	Italy	5.0%				E
Mix Srl	Italy	1.0%				
Tiscali Int.l Network SpA (2)	Italy	10.0%			Information	
Technology E						
Tiscali Finance SA	Lux	100.0%		100.0%	Finance	G
Hutchinson 3G SpA	Italy		0.3%	0.3%	internet &	
Tiscali Deutschland Gmbh	Germany	100.0%		100.0%	Holding	G
Tiscali GmbH	Germany		100.0%	100.0%	B2C	G
Tiscali Verwaltungs Gmbh (formerly Nextra D. V. Gmbh)	Germany		100.0%	100.0%	B2B	G
Tiscali Business Solution GmbH & Co KG (formerly Nextra D. GmbH)	Germany		100.0%	100.0%	B2B	G
Time to market 1 Gmbh (formerly Brandgate Gmbh)	Germany		100.0%	100.0%	Inactive	G
Tiscali Games Gmbh	Germany		100.0%	100.0%	Portal	G
Finanzdirect 24 Gmbh	Germany		60.0%	60.0%	Inactive	G
Tiscali Network Gmbh	Germany		100.0%	100.0%	Multi-level mkt	G
Liberty Surf Group Sa	France	94.5%		94.5%	Holding	G
Tiscali Acces Sa (ex Liberty Surf Sa)	France		100.0%	94.5%	Internet	G
Film Non Stop Monsieur Cinema.Com Sa	France		100.0%	94.5%	Portal	G
Tiscali Média Sa (ex Objectif Net Sa)	France		100.0%	94.5%	Network mgt	G
Tiscali Contact (ex 'Liberty Contact Sa)	France		50.0%	47.3%	Inactive	G
Tiscali Télécom SA	France		100.0%	94.5%	Telecoms	G
Intercall SA	France		67.0%	63.3%	Telecoms	G
Liberty Surf Network Bv	Neth		100.0%	94.5%	Inactive	E
Liberty Telecom Bv	Neth		100.0%	94.5%	Inactive	E
Liberty Surf Comunication Ltd in liquidazione	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

DENOMINAZIONE	COUNTRY	% HELD DIRECTLY	INDIRECTLY	TOTAL STAKE	BUSINESS	CONSOLIDATION METHOD
World Online International NV	Neth	99.5%		99.5%	Holding	G
Tiscali International BV	Neth		100.0%	99.5%	Holding	G
Tiscali Holding AG	Switz		100.0%	99.5%	Internet & Telecoms	G
Tiscali BV	Neth		100.0%	99.5%	Internet	G
World Online Portal BV	Neth		100.0%	99.5%	Inactive	G
Myt Vision BV	Neth		100.0%	99.5%	Inactive	G
Wolstar BV in liq.	Neth		50.0%	49.7%	Inactive	G
Tiscali Media Service BV (formerly Sonera Plaza)	Neth		100.0%	99.5%	Portal	G
Xoip BV	Neth		100.0%	99.5%	Internet	G
Tiscali Partner BV	Neth		100.0%	99.5%	Inactive	G
Tiscali International Network BV	Neth		100.0%	99.5%	Network mgt	G
Tiscali International Network SpA (2)	Italy		90.0%	100.0%	Network mgt	G
Tiscali International Network SA	France		100.0%	99.5%	Network mgt	G
Tiscali International Network SAU	Spain		100.0%	99.5%	Network mgt	G
Tiscali International Network GmbH	Germany		100.0%	99.5%	Network mgt	G
Tiscali International Network Ltd	UK		100.0%	99.5%	Network mgt	G
Tiscali Business International Ltd	UK		100.0%	99.5%	B2B	G
World Online Ltd	UK		100.0%	99.5%	Internet	G
World Online Telecom Ltd	UK		100.0%	99.5%	Telecoms	G
Tiscali Holdings UK Ltd	UK		100.0%	99.5%	Holding co	G
Tiscali UK Ltd	UK		100.0%	99.5%	Internet & Telecoms	G
Telinco UK Ltd	UK		100.0%	99.5%	Internet & Telecoms	G
Connect Free internet Services Ltd	UK		100.0%	99.5%	Internet	G
Hambalt Services Ltd (formerly Tiscali Internet Limited Ltd)	UK	0.0%	100.0%	99,5%	Internet	G
Tiscali Network Distribution Ltd	UK		100.0%	99,5%	Internet	G
Tiscali Business UK Ltd	UK		100.0%	99.5%	Holding co	G
Tiscali Business GmbH	Germany		100.0%	99.5%	B2B	G
Nacamar Luxembourg Sarl (3)	Lux		100.0%	99.5%	B2B	G
Nacamar Ltd (in liquidation)	UK		100.0%	99.5%	B2B	G
Tiscali España SA	Spain		100.0%	99.5%	Internet	G
World Online Kft	Hungary		100.0%	99.5%	Inactive	
World Online Epe	Greece		100.0%	99.5%	Inactive	
Tiscali Oy (formerly Surfeu Oy)	Finland		100.0%	99.5%	internet	G
World Online sro	Czech Rep.		100.0%	99.5%	Internet	
TISCALI Telekomunikace Ceská republika sro	Czech Rep.		100.0%	99.5%	Internet	G
Tiscali Network sro	Czech Rep.		100.0%	99.5%	Multi-level mkt	G
Tiscali Ireland Ltd	UK		100.0%	99.5%	Inactive	
Tiscali Denmark A/S	Denmark		100.0%	99.5%	Internet	G
World Online Poland Sp ZOO	Poland		100.0%	99.5%	Inactive	
Tiscali Pty Ltd	SA		100.0%	99.5%	Internet & Telecoms	G

Notes

(1) Tiscali SpA owns 20% and Energy Byte Srl owns 15%

(2) Tiscali International Network BV owns 90% and Tiscali SpA owns 10%

(3) Tiscali Business UK Ltd owns 51% and Tiscali International BV owns 49%.

(4) Consolidation method G = global (full); E = equity

List of holdings in affiliated companies

COMPANY NAME	HEAD OFFICE	SHARE CAPITAL	SHAREHOLDERS' EQUITY	NET PROFIT	% HELD	BOOK VALUE
Ariete Telemedia Srl (**)	Milan	52	15	(31)	40%	-
FreeTravel SpA in liquidation (**)	Milan	500	142	(12)	50%	-
Netchemya SpA in liquidation (**)	Milan	22,750	5,224	(3,271)	20%	-
Janna SCpa (**)	Cagliari	200	155	(43)	33,33%	34
STS Srl (***)	Rome	100	66	(230)	35%	480
STUD Soc. Consortile Arl (*)	Cagliari	45	43	(5)	33,33%	15
Gilla Servizi Telecomunicaz. Srl (***)	Cagliari	50	64	14	20%	-
Total						**529**

(*) *Figures from the accounts at 31/12/2002*

(**) *Figures from the accounts at 31/12/2003*

(***) *Figures from the accounts at 31/12/2004*

List of holdings in other companies

Consorzio Green Management
CRS4 Scarl
Mix S.r.l.

Cash flow statement

CASH FLOW STATEMENT	31.12.2004	31.12.2003
A) Net debt at the end of the previous year	**213,387**	**286,911**
Net profit (loss) for the year	(159,466)	(242,448)
Depreciation, amortisation and write-downs	227,917	293,635
Net change in provisions for risks and future liabilities	(4,870)	6,852
Net change in staff severance fund	(40)	3,848
Write-downs on long-term investments	(640)	(749)
Change in pre-paid taxes	(106,274)	(52,221)
Change in net working capital, of which:	**(46,617)**	**50,555**
- change in receivables	(8,017)	43,403
- change in inventories	7,194	(3,596)
- change in accrued income and deferred charges	(61,169)	(49,040)
- change in payables	1,514	40,209
- change in accrued liabilities and deferred income	13,861	19,579
B) Cash flows from operations	**(89,990)**	**59,472**
- tangible assets	(54,524)	(60,353)
- intangible assets	14,687	(166,034)
- long-term investments	5,725	(1,194)
C) Cash flows from investments	**(34,112)**	**(227,581)**
Change in financial payables	(247,029)	80,543
Change in minority interests	(1,743)	(9,973)
Other medium-/long-term liabilities	3,628	(21,625)
Loans due to shareholders	32,500	-
Changes in shareholders' equity	51,425	45,640
D) Cash flows from financing operations	**(161,219)**	**94,585**
E) Cash flows for the year (B + C + D)	**(285,321)**	**(73,524)**
F) Net debt at year end (A - E), of which:	**(71,934)**	**213,387**
Cash and cash equivalents	128,413	203,544
Short-term investments	75,787	129,019
Short-term debt	(276,134)	(119,176)
Total	**(71,934)**	**213,387**

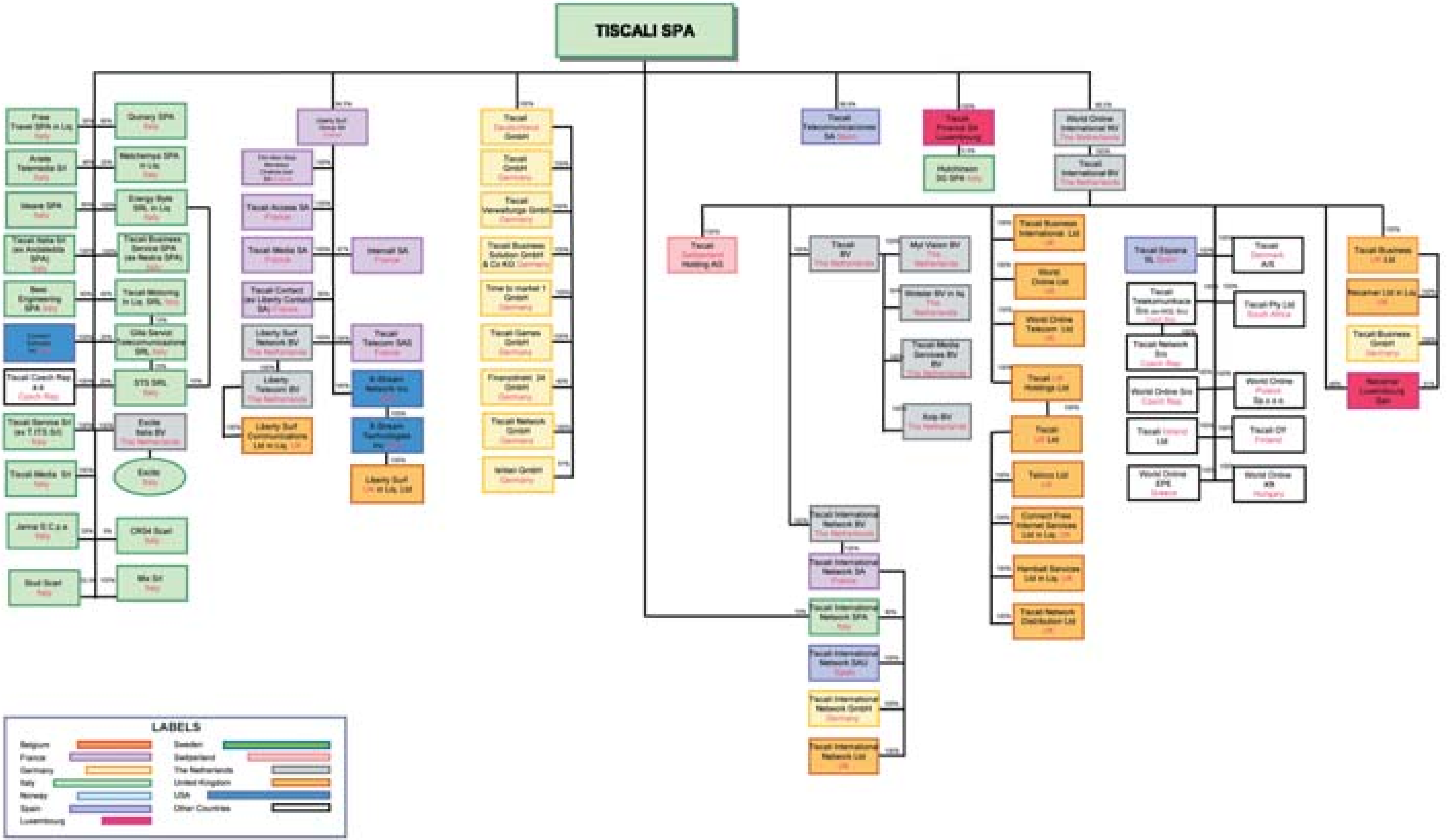
The effect of deconsolidating the companies sold in 2004 on net debt is not significant.

Vittorio Serafino

For the Board of Directors

The Chairman

Vittorio Serafino


TISCALI SPA
LABELS
Belgium
France
Germany
Italy
Norway
Spain
Luxembourg
Sweden
Switzerland
The Netherlands
United Kingdom
USA
Other Countries

PARENT COMPANY ANNUAL ACCOUNTS

PARENT COMPANY ANNUAL ACCOUNTS

Balance sheet

Assets
(EUR)

					due < 1 year 31.12.2004	due < 1 year 31.12.2003	31.12.2004	31.12.2003
A)				**Capital contributions due from shareholders**			**-**	**-**
B)				**Non-current assets**				
	I			**Intangible assets**				
		1)		Start-up and expansion costs			4,550,649	2,205,662
		2)		Research, development and advertising costs			-	1,758,206
		3)		Industrial patent rights and intellectual property rights			15.210.808	22.791.580
		4)		Concessions, licenses, trademarks and similar rights			40,581,163	35,852,143
		5)		Goodwill			-	80,067
		6)		Payments on account and intangible assets in course of acquisition			1,785,500	321,213
		7)		Other			17,277,945	6,140,489
				Intangible assets			**79,406,065**	**69,149,360**
	II			**Tangible assets**				
		1)		Land and buildings			24,506,973	24,437,646
		2)		Plant and machinery			36,283,582	31,621,050
		3)		Industrial and commercial equipment			1,616,464	1,403,349
		4)		Other tangible assets			3,297,986	3,356,121
		5)		Payments on account and tangible assets in course of acquisition			1,779,872	-
				Tangible assets			**67,484,877**	**60,818,166**
	III			**Long-term investments**				
		1)		**Investments in:**				
			a)	subsidiaries			1,521,051,688	1,992,851,596
			b)	affiliated companies			529,000	49,000
			d)	other companies			160,484	160,484
		2)		**Receivables**				
			d)	from others	-	-	2,037,927	8,037,927
				Long-term investments	**-**	**-**	**1,523,779,099**	**2,001,099,007**
				Non-current assets			**1,670,670,041**	**2,131,066,533**

Assets
(EUR)

			due after 1 year 31.12.2004	due after 1 year 31.12.2003	31.12.2004	31.12.2003
C)		**Current assets**				
I		**Inventories**				
	1)	Raw materials, supplies and consumables			461,654	940,962
	3)	Contract work in progress			652,272	1,430,923
		Total			**1,113,926**	**2,371,885**
II		**Receivables**				
	1)	Receivables from customers	-	-	46,262,116	49,098,510
	2)	Receivables from subsidiaries	17,328,067	17,328,067	78,228,044	102,874,942
	4 bis)	Tax receivables	-	-	27,148,754	35,370,979
	4 ter)	Deferred tax assets	-	-	45,000,000	-
	5)	from others	172,353	328,171	4,232,667	8,205,416
		Receivables	**17,500,420**	**17,656,238**	**200,871,581**	**195,549,847**
III		**Investments other than non-current assets**				
	1)	Holdings in subsidiaries			10,464	-
		Investments other than non-current assets			**10,464**	**-**
IV		**Cash and cash equivalents**				
	1)	Bank and post office deposits			48,873,222	3,599,337
	3)	Cash and other negotiable instruments			52,783	118,595
		Cash and cash equivalents			**48,926,005**	**3,717,932**
		Current assets			**250,921,976**	**201,639,664**
D)		**Accrued income and deferred charges**				
		Accrued income and deferred charges			13,292,591	5,394,360
		Accrued income and deferred charges			**13,292,591**	**5,394,360**
		Assets			**1,934,884,608**	**2,338,100,557**

Liabilities and shareholders' equity
(EUR)

			due after 1 year 31.12.2004	due after 1 year 31.12.2003	31.12.2004	31.12.2003
A)		**Shareholders' equity**				
	I	Share capital			196,619,071	184,460,214
	II	Share premium reserve			1,440,874,031	1,506,685,834
	III	Revaluation reserve			-	-
	IV	Legal reserve			-	-
	V	Reserve for own shares held			-	-
	VI	Statutory reserves			-	-
	VII	Other reserves				
		Reserve for rounding differences			(1)	(3)
	VIII	Retained earnings (losses carried forward)			-	-
	IX	Profit (loss) for the year			(489,778,071)	(114,534,520)
		Total shareholders' equity			**1,147,715,030**	**1,576,611,525**
B)		**Provisions for risks and future liabilities**				
	3)	Other			20,204,867	23,436,967
		Provisions for risks and future liabilities			**20,204,867**	**23,436,967**
C)		**Staff severance fund**			**5,462,954**	**4,232,647**
D)		**Payables**				
	4)	Due to banks	30,620,437	31,945,826	54,733,727	63,765,594
	5)	Due to other financial institutions	369,755	-	586,571	26,263
	7)	Payables to suppliers	32,765,310	8,447,775	143,686,246	111,891,636
	9)	Due to subsidiaries	-	-	538,758,762	539,397,807
	12)	Taxes payable			2,473,462	1,916,851
	13)	Due to social security authorities			3,858,021	2,141,071
	14)	Other payables			7,369,661	8,266,324
		Payables	**63,755,502**	**40,393,601**	**751,466,450**	**727,405,546**
E)		**Accrued liabilities and deferred income**				
		Accrued liabilities and deferred income			10,035,307	6,413,872
		Accrued liabilities and deferred income			**10,035,307**	**6,413,872**
		Total liabilities and shareholders' equity			**1,934,884,608**	**2,338,100,557**

Memorandum accounts
(EUR)

				31.12.2004	31.12.2003
A)			**GUARANTEES GIVEN**		
	1)		**By third parties and subsidiaries**		
		a)	Sureties	500,930,708	565,976,059
			Total guarantees given	**500,930,708**	**565,976,059**
B)			**OTHER MEMORANDUM ACCOUNTS**		
			Leasing payments falling due	19,287,304	28,292,225
			Commitments	4,428,883	15,879,064
			OTHER MEMORANDUM ACCOUNTS	**23,716,187**	**44,171,289**
C)			**GUARANTEES RECEIVED**		
	1)		**from third parties and group companies**		
		a)	Sureties	857,975	1,826,331
			Total guarantees received	**857,975**	**1,826,331**
			TOTAL MEMORANDUM ACCOUNTS	**525,504,870**	**611,973,679**

Profit and loss account

(EUR)

				31.12.2004	31.12.2003
A)			**Value of production**		
	1)		Revenues from sales and services	197,058,230	174,885,286
	3)		Changes in contract work in progress	854,019	1,430,923
	4)		Increases in assets for work in progress (internal)	1,938,097	1,174,238
	5)		Other income		
			- Other revenues and income	121,770	9,076
			- Contributions to the operating account	2,623,833	2,864,784
			Total	**202,595,949**	**180,364,307**
B)			**Production costs**		
	6)		Raw materials, supplies and consumables	(2,591,269)	(3,723,071)
	7)		Service costs	(146,742,373)	(129,088,940)
	8)		Lease and rental expense	(19,952,003)	(20,850,075)
	9)		Personnel costs		
		a)	Wages and salaries	(28,166,568)	(25,645,537)
		b)	Social security contributions	(7,302,479)	(5,819,691)
		c)	Staff severance pay	(1,705,453)	(1,526,998)
		e)	Other costs	(445,913)	(73,016)
	10)		Depreciation, amortisation and write-downs		
		a)	Amortisation of intangible assets	(20,572,472)	(20,920,347)
		b)	Depreciation of tangible assets	(11,844,609)	(8,202,411)
		c)	Other write-downs of non-current assets	-	-
		d)	Write-downs of receivables included in current assets and cash and cash equivalents	(5,618,010)	(22,504,669)
	11)		Changes in inventories of raw materials, supplies and consumables	(364,534)	(267,192)
	12)		Risk provisions	-	(14,401,127)
	13)		Other provisions	-	-
	14)		Other operating expenses	(2,110,494)	(969,564)
			Production costs	**(247,416,177)**	**(253,992,638)**
(A - B)			**Difference between value of production and costs**	**(44,820,228)**	**(73,628,331)**

Profit and loss account

(EUR)

				31.12.2004	31.12.2003
C)			**Financial income and charges**		
	15)		**Income from equity investments**		
		b)	in affiliated companies	300,000	-
	16)		**Other financial income**		
		d)	Earnings other than the above		
			from third parties	278,661	346,458
			from subsidiaries	28,063	42,369
	17)		**Interest and other financial charges**		
		a)	to third parties	(2,979,301)	(2,744,111)
		b)	to subsidiaries	(542,795)	(106,349)
	17 bis)		**Exchange rate gains and losses**	**510,404**	**171,746**
			Financial income and charges	**(2,404,968)**	**(2,289,887)**
D)			**Adjustments to the value of financial assets**		
	18)		**Revaluations**	**-**	**-**
	19)		**Write-downs**		
		a)	of equity investments	(468,866,731)	(41,784,246)
			Adjustments to the value of financial assets	**(468,866,731)**	**(41,784,246)**
E)			**Extraordinary income and charges**		
	20)		**Extraordinary income**		
		a)	Income	2,354,085	20,626,004
		b)	Capital gains on disposals of non-current assets	3,686	-
	21)		**Extraordinary charges**		
		a)	Charges	(21,043,915)	(16,854,065)
		b)	Capital losses on disposals of non-current assets	-	(603,995)
			Extraordinary income and charges	**(18,686,144)**	**3,167,944**
			Pre-tax profit (loss)	**(534,778,071)**	**(114,534,520)**
	22)		**Corporate income tax for the financial year**		
		c)	Deferred taxes	45,000,000	-
			Profit (loss) for the year	**(489,778,071)**	**(114,534,520)**

Vittorio Serafino

For the Board of Directors

The Chairman

Vittorio Serafino

Notes to the parent company financial statements

(all figures in EUR 000)

Form and content

Accounting criteria

These financial statements have been prepared in accordance with art. 2423 and subsequent articles of the Italian civil code. They consist of the balance sheet, profit and loss account and notes to accounts, which were prepared in accordance with art. 2427 of the civil code, and which, in accordance with art. 2423, are an integral part of the accounts.

The provisions concerning the preparation of financial statements introduced under corporate law reforms (Legislative Decree 6 of 17 January 2003-known as the Vietti Reform-and its subsequent revisions) were applied. The balance sheet and profit and loss tables were consequently adjusted to meet the requirements of the new provisions, and to ensure consistency, the corresponding items of previous periods were also restated. The notes to the accounts also include the information required by the aforementioned Legislative Decree 6/2003. The effects on the Tiscali financial statements of introducing the new provisions are not, on the whole, significant.

For ease of comparison the financial statements contain figures for the 2003 financial year, which have been prepared and presented in the same way as 2004 data. Moreover, pursuant to Legislative Decree 127/1991, the consolidated financial statements are presented together with those of Tiscali SpA.

The cash flow statement is attached to these notes to the accounts.

General accounting criteria

Going concern basis

These financial statements were prepared on the assumption that the company is a going concern and is operating normally, since the outlook in the sector in which Tiscali operates and its competitive position mean that the Tiscali group's target of achieving a better financial structure is well within its grasp as indicated in the business plans. In 2004 and in the first few months of 2005, the plan to dispose of non-strategic assets was implemented. As projected in the group's refinancing strategy, this plan together with available financial resources will allow Tiscali SpA and the group to meet its obligations by the established deadlines. It is important to stress that in this context, the attainment of the targets set out in the strategic plan is a key factor in the development of Tiscali's financial position and the stability of its businesses and finances. It will ensure that the group has the financial resources it needs to sustain growth, particularly in broadband services, and that it is able to redeem the next bond issues falling due for bonds that were still outstanding at the end of 2004. The company's position as a going concern is also supported by the substantial improvement in operating results achieved in 2004 and by the expectation of further substantial and ongoing advances in 2005 and future years, as set out in the business plan, which was drawn up on assumptions that take into account the information currently available on market trends.

Other general accounting criteria

The criteria used to prepare the financial statements conform with the aforementioned legislation. 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 (IAS/IFRS).

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 the accruals principle, on the assumption that the group is a going concern (as noted above), and taking into account the economic function of the asset and liability items concerned.

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.

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

To date, no write-ups have been made.

Accounting policies

Intangible assets

Intangible assets are recorded at purchase or production cost, including any additional charges. The cost of intangible assets, which have a limited use over time, is amortised on a straight-line basis based on the remaining useful life of such assets. Intangible assets are written down whenever there is a permanent loss or reduction in their value. If this occurs, the notes to the accounts indicate the amount and reasons for the reductions in value, with reference to the expected contribution of the assets concerned to the generation of future profits, as well as their expected useful life, and their market value, if relevant. The original value is re-established to the extent that it is believed that the reasons for the previous reductions in value no longer apply.

“Start-up and expansion costs” are entered under the appropriate accounting line on the assets side of the balance sheet and are amortised for a period not exceeding five years 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 new products, whose capitalised R&D and advertising costs are recorded under the appropriate line item under “Assets" and amortised over a two-year period, in consideration of the time taken to recoup such costs, starting from the financial year in which they were incurred. This is particularly true for advertising costs related to the launch of new broadband products and services incurred during the previous financial year, which were fully amortised as at 31 December 2004.

“Industrial patent 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 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 also recorded at their acquisition cost and amortised using the straight-line method in accordance with the period of use established by 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. To be specific, IRU agreements for fibre optic networks are amortised over the shorter of the term of the concession and the projected use of the right.

Maintenance costs and leasehold improvements are listed under “other” and are amortised using the straight-line method over either the estimated useful life of the asset, or over the remaining lease period, whichever is the shorter.

“Other intangible assets” are recorded at their purchase or internal production cost, including any additional charges, and amortised on a straight-line basis.

Tangible assets

Tangible assets are recorded at purchase or production cost, including any additional charges. The cost of tangible assets, which have a limited use over time, is depreciated on a straight-line basis according to the remaining useful life of such assets. Tangible assets are written down whenever there is a permanent loss or reduction in their value. If this occurs, the notes to accounts indicate the amount and reasons for the reductions in value, with reference to the expected contribution of the assets concerned to the generation of future profits, as well as their expected useful life, and their market value, if relevant. The original value is re-established to the extent that it is believed that the reasons for the previous reductions in value no longer apply.

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 tangible assets	
- office furniture and equipment	12%
- IT and electronic office equipment	20%
- vehicles	25%
- other assets	20%

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

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.

Financial leasing transactions for capital equipment, which were carried out in 2004, are posted on the balance sheet based on the interpretation of current legislation, i.e. leasing payments must be booked in the period to which each payment refers. As required by provisions introduced under the corporate law reforms, in the following section of the notes to accounts, the comments on tangible assets include the potential effects from the application, with respect to financial leasing transactions, of the financial method specified by international accounting standards (IAS/IFRS), i.e., the posting of the leased asset in the same manner as assets owned by the company.

Long-term investments

Equity investments

Long-term equity investments are valued at cost with a downward adjustment for any permanent losses in value. These assets are reported at their acquisition or subscription price. The original value is re-established if the reasons leading to the adjustment for a permanent loss in value no longer apply.

Long-term loans

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

Inventorie

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 percentage of completion method.

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.

Payables

Payables are recorded at nominal value corresponding to the repayment amount.

Provisions for risks and future liabilities

Reserves for risks and future liabilities are intended to provide cover for 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.

Staff severance fund

The staff severance fund corresponds to the accrued benefits for employees in accordance with current laws and collective bargaining agreements.

Accruals and deferrals

Accruals and deferrals include only the proportion of earnings and charges for the financial year that will be booked in subsequent financial years, and the proportion of revenues and expenses accruing or incurred before the end of the financial year but that will fall due in subsequent financial years. In any case this account include portions of revenues and expenses common to two or more financial years, the amount of which varies over time

Tax

Current taxes are calculated in accordance with tax laws currently in effect. It should be noted that in 2004, the company had no taxes payable due to the lack of a taxable profit.

Deferred taxes are calculated on the basis of temporary differences between taxable income and the profits/losses of the various companies and reported under “reserves for risks and future liabilities” (deferred tax reserve), 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 in current assets under “Deferred tax assets” if there is reasonable certainty of their recovery.

Deferred tax assets in respect of previous losses carried forward are only included if there is reasonable certainty that they will be recovered in subsequent financial years.

Deferred tax charges and credits are directly reflected in the profit and loss account.

Foreign exchange transactions

Receivables and payables denominated in foreign currencies are booked at the exchange rate in force at the end of the period, and related conversion gains or losses are credited or debited to the profit and loss account on the appropriate line under “exchange rate gains and losses”. No tangible or intangible assets or equity investments were reported at cost in foreign currencies.

After the end of the financial year, there were no significant changes in the reference exchange rates for the purposes of these accounts.

Derivatives

The company has no outstanding derivatives.

Memorandum accounts

Commitments and guarantees, along with other memorandum accounts, are shown at their contractual value.

Recording of revenues, income, costs and charges

Revenues and income, and costs and charges are recorded in the accounts net of discounts, rebates and bonuses in accordance with the accruals principle.

Revenues from narrowband and broadband internet connection services and voice services are reported in the profit and loss account on the basis of actual traffic figures at the end of the period and/or on the basis of the accrued service fee.

Revenues and costs relating to ADSL activation (installation and modems/equipment) for 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).

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

Financial income and expenses are posted on the basis of accrual accounting principles.

Analysis of balance sheet items

ASSETS

I – Intangible assets

	COST	31.12.2004 (AMORTISATION AND WRITE-DOWNS)	NET VALUE	COST	31.12.2003 (AMORTISATION AND WRITE-DOWNS)	NET VALUE
Start-up and expansion costs	24,145	(19,594)	4,551	19,990	(17,784)	2,206
R&D and advertising costs	3,516	(3,516)	-	3,516	(1,758)	1,758
Industrial patent and intellectual property rights	34,089	(18,878)	15,211	36,021	(13,229)	22,792
Concessions, licences, trademarks and similar rights	58,910	(18,329)	40,581	49,260	(13,408)	35,852
Goodwill	400	(400)	-	400	(320)	80
Payments on account and intangible assets in course of acquisition	1,785	-	1,785	321	-	321
Other	26,599	(9,321)	17,278	12,119	(5,979)	6,140
	149,445	**(70,038)**	**79,406**	**121,627**	**(52,478)**	**69,149**

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

	BALANCE 31.12.2003	INCREASES	WRITE-UPS (WRITE-DOWNS)	OTHER CHANGES	AMORTISATION	BALANCE 31.12.2004
Start-up and expansion costs	2,206	4,208	-	(16)	(1,847)	4,551
R&D and advertising costs	1,758	-		-	(1,758)	-
Industrial patent and intellectual property rights	22,792	2,055	-	(2,838)	(6,798)	15,211
Concessions, licences, trademarks and similar rights	35,852	15,900	-	(4,968)	(6,203)	40,581
Goodwill	80	-	-	-	(80)	-
Payments on account and intangible assets in course of acquisition	321	1,464	-	-	-	1,785
Other	6,140	15,733	-	(708)	(3,887)	17,278
	69,149	**39,360**	**-**	**(8,530)**	**(20,573)**	**79,406**

As at 31 December 2004, "start-up and expansion costs" were largely related to expenses (subscription charges, legal and other fees) incurred for the EUR 50 million increase in share capital that was subscribed on 30 December 2004 by Société Générale and described in the Report on operations. Decreases are due to the normal process of amortisation.

Promotional and advertising costs related to the launch of broadband services, which were capitalised in 2003 under "R&D and advertising costs," were fully amortised during the financial year.

The "industrial patent and intellectual property rights" line mainly includes application software acquired for an unlimited period and customised for the exclusive use of the company. The EUR 2.1 million increase was for the capitalisation of costs of staff involved in the development of software for new products and applications. The EUR 2.8 million decrease, which was recorded under "other changes," was primarily for the removal of certain assets reported in previous periods that are no longer used in light of the revision of the strategic plan in 2004.

"Concessions, licences, trademarks and similar rights" included EUR 35.8 million in exclusive usage rights (IRU, or Indefeasible Rights of Use, agreements) to fibre optics over 15 years (EUR 31.9 million net of accumulated amortisation). These rights, obtained for the development of the Tiscali network, are amortised over the shorter of the life of the related contract and the projected usage period.

Increases included EUR 12.7 million for further investments made in 2004 for fibre optic IRUs, and EUR 3.2 million for the purchase of software licences and related charges. In particular, these software investments included expanded software licences for access systems and management services supplied on the network, and management and administration software purchased for the group.

The EUR 5 million decrease was partly related to the renegotiation of the outstanding debt with Telecom Italia for previous fibre investments (EUR 4.3 million) and partly for the removal of several assets posted in previous periods that are no longer used in light of the revision of the strategic plan in 2004 (EUR 700,000).

"Payments on account and intangible assets in course of acquisition" rose due to an increase of EUR 1.5 million primarily resulting from investments connected with the ULL project which were not operational at the end of the financial year.

The "other" line mainly includes investments made for the development of the network and the preparation of technical sites for the ULL project. Investments in 2004 totalled EUR 15.7 million.

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 31.12.2003	INCREASES	WRITE-UPS	OTHER CHANGES	(DISPOSALS)	BALANCE 31.12.2004
Land and buildings						
- land	4,247	-	-	-	-	4,247
- industrial buildings	20,498	696	-	-	-	21,194
	24,745	**696**	**-**	**-**	**-**	**25,441**
Plant and machinery						
- general plant and machinery	13,849	752	-	-	-	14,601
- specific plant and machinery	27,753	14,101	-	-	-	41,854
- other plant and machinery	2,030	13	-	-	-	2,043
	43,632	**14,866**	**-**	**-**	**-**	**58,498**
Industrial and commercial equipment						
- network and other specific equipment	1,147	762	-	-	-	1,909
- other equipment	1,727	31	-	-	(16)	1,742
- miscellaneous minor items	199	32	-	-	-	231
	3,073	**825**	**-**	**-**	**(16)**	**3,882**
Other tangible assets						
- office furniture and equipment	2,771	68	-	-	-	2,839
- IT and electronic office equipment	2,372	174	-	-	-	2,546
- other assets	684	551	-	-	(18)	1,217
	5,827	**793**	**-**	**-**	**(18)**	**6,602**
Payments on account and tangible assets in course of acquisition						
- assets in course of acquisition	-	1,779	-	-	-	1,779
- payments on account	-	-	-	-	-	-
	-	**1,779**	**-**	**-**	**-**	**1,779**
	77,277	**18,959**	**-**	**-**	**(34)**	**96,202**

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

DEPRECIATION	BALANCE 31.12.2003	DEPRECIATION CHARGES	WRITE-DOWNS	OTHER CHANGES	(DISPOSALS)	BALANCE 31.12.2004
Land and buildings						
- land	-	-	-	-	-	-
- industrial buildings	307	626	-	-	-	933
	307	**626**	**-**	**-**	**-**	**933**
Plant and machinery						
- general plant and machinery	1,919	2,626	-	349	-	4,894
- specific plant and machinery	8,466	6,950	-	21	-	15,437
- other plant and machinery	1,626	259	-	-	-	1,885
	12,011	**9,835**	**-**	**370**	**-**	**22,216**
Industrial and commercial equipment						
- network and other specific equipment	265	302	-	13	-	580
- other equipment	1,377	214	-	12	(2)	1,601
- miscellaneous minor items	28	54	-	-	-	82
	1,670	**570**	**-**	**25**	**(2)**	**2,263**
Other tangible assets						
- office furniture and equipment	623	335	-	19	-	977
- IT and electronic office equipment	1,583	436	-	7	-	2,026
- other assets	265	43	-	11	(17)	302
Payments on account and tangible assets in course of acquisition	**-**	**-**	**-**	**-**	**-**	**-**
	2,471	**814**	**-**	**37**	**(17)**	**3,305**
	16,459	**11,845**	**-**	**432**	**(19)**	**28,717**

A summary of the changes in the net book value of tangible assets over the period is shown below:

NET BOOK VALUE	BALANCE 31.12.2003	INCREASES	WRITE-UPS AND OTHER CHANGES	(DEPRECIATION, AND WRITE-DOWNS)	(DISPOSALS)	BALANCE 31.12.2004
Land and buildings						
- land	3,940	-	-	-	-	3,940
- industrial buildings	20,498	696	-	(626)	-	20,567
	24,438	**696**	**-**	**(626)**	**-**	**24,507**
Plant and machinery						
- general plant and machinery	11,930	752	(349)	(2,626)	-	9,707
- specific plant and machinery	19,287	14,101	(21)	(6,950)	-	26,417
- other plant and machinery	404	13	-	(259)	-	158
	31,621	**14,866**	**(370)**	**(9,835)**	**-**	**36,283**
Industrial and commercial equipment						
- network and other specific equipment	882	762	(13)	(302)	-	1,329
- other equipment	350	31	(12)	(214)	(14)	141
- miscellaneous minor items	171	32	-	(54)	-	149
	1,403	**825**	**(25)**	**(570)**	**(14)**	**1,617**
Other tangible assets						
- office furniture and equipment	2,148	68	(19)	(335)	-	1,862
- IT and electronic office equipment	789	174	(7)	(436)	-	520
- other assets	419	551	(11)	(43)	(1)	915
	3,356	**793**	**(37)**	**(814)**	**(1)**	**3,298**
Payments on account and tangible assets in course of acquisition						
- assets in course of acquisition	-	1,779	-	-	-	1,779
- payments on account	-	-	-	-	-	-
	-	**1,779**	**-**	**-**	**-**	**1,779**
	60,818	**18,959**	**(432)**	**(11,845)**	**(15)**	**67,485**

The “land” item covers investments in land acquired for the company’s new head office in Cagliari. The property is pledged as a EUR 70 million mortgage guarantee to Banca CIS to secure financing provided to fund the entire project.

“Industrial buildings” includes investments made to build the company’s head office in Cagliari.

“Plant and machinery” mainly consists of technical equipment for building internal networks, equipment for technical site set-up, servers, routers and DWDM devices (equipment needed to activate the fibre optic network). Increases in this item in 2004 were primarily related to specific equipment including transmission equipment (EUR 12.3 million during the year) purchased for the implementation of the ULL project.

“Assets in course of acquisition” totalling EUR 1.7 million were for equipment delivered for the ULL project that had not been put into operation at the end of the year.

The table below illustrates the effects on accounts of reporting financial leasing transactions using the methodology stipulated by IAS 17, which calls for the reporting and depreciation of assets covered by financial leasing transactions in the lessee’s accounts under non-current assets. IAS 17 requires payables to the leasing organisation to be booked as offsetting entries. Lease payments are removed from lease and rental expenses, and interest charges for the financial year are booked under financial charges.

ASSETS AND LIABILITIES	31.12.2004
Assets	
ASSETS COVERED BY FINANCIAL LEASING AGREEMENTS	88,843
ACCUMULATED DEPRECIATION	(63,686)
a) ASSETS COVERED BY FINANCIAL LEASING AGREEMENTS LESS ACCUMULATED DEPRECIATION	25,158
b) ACCRUED LEASE PAYMENTS POSTED (REVERSAL)	508
Liabilities	
c) IMPLICIT PAYABLES FOR FINANCIAL LEASING TRANSACTIONS	18,041
Total gross effect at end of year (a-b-c)	6,609
Tax effect (33%)	(2,181)
Effect on shareholders’ equity at the end of the year	**4,428**
Profit and loss account	
a) Reversal of finance lease payments	16,288
b) Reporting of financial charges for finance leasing transactions	2,308
c) Reporting of depreciation charges for assets covered by financial leasing transactions	16,923
Effect on pre-tax profits (a-b-c)	(2,943)
Tax effect (33%)	971
Effect on profits of reporting leasing transactions using the “financial” method	**(1,972)**

The table shows that if International Accounting Standards had been applied for the reporting of financial leasing transactions, shareholders’ equity would have been EUR 4.4 million higher and profits would have been EUR 1.9 million lower.

III – Long-term investments

Equity investments

As at 31 December 2004, this item included holdings in subsidiaries totalling EUR 1.521 million and investments in affiliated and other companies totalling approximately EUR 700,000.

The tables below show the breakdown of the balance and changes with respect to 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

SUBSIDIARIES	COST	31.12.2004 WRITE-UPS (DOWNS)	BOOK VALUE	COST	31.12.2003 WRITE-UPS (DOWNS)	BOOK VALUE
Best Engineering SpA	-	-	-	5,643	(4,353)	1,290
Connect Software Inc	1,027	(1,027)	-	1,027	-	1,027
Energy Byte Srl in liquidation	677	(677)	-	677	(677)	-
Excite Italia BV	17,769	(11,769)	6,000	17,769	(5,000)	12,769
Gilla Servizi Telecomunicaz. Srl (formerly Gilla SpA)	-	-	-	1,295	(1,250)	45
Ideare SpA	6,745	(3,747)	2,998	6,745	(3,747)	2,998
Informedia Srl in liquidation	-	-	-	535	(535)	-
Liberty Surf Group SA	599,812	(334,812)	265,000	599,812	(80,883)	518,929
Quinary SpA	30,161	(29,474)	687	29,474	(28,378)	1,096
STS Studi Tecnologie e Sistemi Srl	-	-	-	1,291	-	1,291
Tiscali AG (formerly Tiscali Datacomm AG)	-	-	-	75,623	(58,610)	17,013
Tiscali Business Service SpA (formerly Nextra SpA)	1,252	-	1,252	1,252	-	1,252
Tiscali Czech Republic AS	39	(39)	-	39	-	39
Tiscali Deutschland Gmbh (formerly Nikoma)	283,475	(247,088)	36,387	283,475	(247,088)	36,387
Tiscali Finance SA	125	-	125	125	-	125
Tiscali Italia Srl (formerly Andaledda SpA)	103	-	103	103	-	103
Tiscali Media Srl	10	-	10	-	-	-
Tiscali Motoring Srl in liquidation	500	-	500	500	-	500
Tiscali Service Srl (formerly Tiscali I.T.S. Srl)	1,593	-	1,593	1,593	-	1,593
Tiscali Telecomunicaciones SA	2,452	(2,327)	125	2,452	(2,327)	125
World Online International NV	1,811,994	(605,722)	1,206,272	1,811,994	(415,725)	1,396,269
	2,757,733	**(1,236,681)**	**1,521,052**	**2,841,424**	**(848,572)**	**1,992,852**

AFFILIATED COMPANIES	COST	31.12.2004 WRITE-UPS (DOWNS)	BOOK VALUE	COST	31.12.2003 WRITE-UPS (DOWNS)	BOOK VALUE
Ariete Telemedia Srl	744	(744)	-	744	(744)	-
FreeTravel SpA in liquid.	250	(250)	-	250	(250)	-
Janna SCpa	34	-	34	34	-	34
Netchemya SpA in liquid.	4,250	(4,250)	-	4,550	(4,550)	-
STS Studi Tecnologie e Sistemi Srl	1,291	(811)	480	-	-	-
STUD Soc. Consortile Arl	15	-	15	15	-	15
	6,584	**(6,055)**	**529**	**5,593**	**(5,544)**	**49**

OTHER COMPANIES	COST	31.12.2004 WRITE-UPS (DOWNS)	BOOK VALUE	COST	31.12.2003 WRITE-UPS (DOWNS)	BOOK VALUE
Crs4	126	-	126	126	-	126
Mix Srl	1	-	1	1	-	1
Tiscali Int.l Network SpA	33	-	33	33	-	33
	160	**-**	**160**	**160**	**-**	**160**

Movements

The movements in each holding over the year are shown in the table below.

SUBSIDIARIES	BALANCE 31.12.2003	INCREASES	(DISPOSALS)	WRITE-UPS (DOWNS)	OTHER CHANGES	BALANCE 31.12.2004
Best Engineering SpA (*)	1,290	1,608	-	(2,897)	(1)	-
Connect Software Inc	1,027	-	-	(1,027)	-	-
Excite Italia BV	12,769	-	-	(6,769)	-	6,000
Gilla S. Telecom.. Srl (formerly Gilla SpA) (*)	45	-	-	-	(45)	-
Ideare SpA	2,998	-	-	-	-	2,998
Liberty Surf Group SA	518,929	-	-	(253,929)	-	265,000
Quinary SpA	1,096	1,381	-	-	(1,790)	687
STS Studi Tecnologie e Sistemi Srl	1,291	-	-	(811)	(480)	-
Tiscali AG (formerly Tiscali Datacomm AG)	17,013	-	(4,310)	(12,702)	-	-
Tiscali Business Service SpA (formerly Nextra SpA)	1,252	-	-	-	-	1,252
Tiscali Czech Republic AS	39	-	-	(39)	-	-
Tiscali Deutschland Gmbh (formerly Nikoma)	36,387	-	-	-	-	36,387
Tiscali Finance SA	125	-	-	-	-	125
Tiscali Italia Srl (formerly Andaledda SpA)	103	650	-	(650)	-	103
Tiscali Media Srl	-	10	-	-	-	10
Tiscali Motoring Srl (formerly Motorcity SpA)	500	-	-	-	-	500
Tiscali Service Srl (formerly Tiscali I.T.S. Srl)	1,593	-	-	-	-	1,593
Tiscali Telecomunicaciones SA	125	-	-	-	-	125
World Online International NV	1,396,269	-	-	(190,000)	-	1,206,272
	1,992,852	**3,649**	**(4,310)**	**(468,823)**	**(2,316)**	**1,521,052**

(*) During the period ending 31.12.2004, Gilla Servizi Telecomunicaz. Srl and Best Engineering were reclassified amoung the investments other than non-current assets.

Changes from the previous period were largely due to write-downs of EUR 468.8 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. The book values of equity investments as at 31 December 2004, 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 significant goodwill attached to each holding.

In this regard, it should be noted that the book value of equity investments for the previous period was verified in the results of the report prepared by an independent consultant who was assigned the specific task of verifying the book values of equity investments in the financial statements and consolidated financial statements as at 31 December 2003. The directors of Tiscali SpA requested this report in order to verify whether there was any permanent loss in value in the equity investments reported in the financial statements. Starting in the second half of 2004, the implementation of the strategic plan to focus business on key countries resulted in a significant change in the frame of reference for the valuation of equity investments. In this context it was deemed necessary to test whether equity investments were holding their book value ("impairment test"), in view of the circumstances leading to the inclusion of several of these-which were no longer considered strategic-in the disposal plan. For these assets, it was therefore necessary to refer to their "market value" rather than their value as a going concern.

In keeping with the methodology used for the consultant's report prepared for the 2003 financial statements, for equity investments held directly or indirectly in strategic countries, the impairment test was based on projected Discounted Cash Flows (DCF) reported in the Tiscali group business plan.

The book value of each equity investment is set out below, with a brief description of the most important transactions carried out during the period.

Best Engineering SpA

Best Engineering provides geo-referencing services and technologies. The EUR 1.6 million increase reported in the value of this equity investment relates to the parent company's waiver of a receivable from this subsidiary.

In December 2004, a preliminary agreement was executed for the sale of 60% of the share capital of Best Engineering SpA to minority shareholders who already owned the remaining 40%. This transaction was later finalised in January 2005. The equity investment was nearly fully written down in order to bring its value into line with the sale price. The remaining insignificant value was also moved to current assets under item C) III 1). Although the transaction resulted in a loss, it should be seen in the context of the streamlining of the Tiscali group's strategies and the resulting improvement in the efficiency and operating savings in the short term, through the disposal of assets that cannot be readily included in the current "core business," but still require the use of significant financial and other resources if managed.

Connect Software Inc

This equity investment, which was acquired in December 2000, was fully written down in 2004 since the related intangible assets (software licences) are no longer used in the Tiscali group, and no break-up and/or sale of these assets to third parties is anticipated.

Energy Byte Srl in liquidation

By resolution of the shareholders' meeting of 11 March, this company was put into liquidation in 2004. Based on currently available information, the conditions do not apply for the write-up of the book value of this equity investment which was fully written down in 2001.

Excite Italia BV (EUR 6 million)

Excite Italia BV operates in the internet media sector via its Italian branch. In 2004, Excite provided intragroup services (it operated as a portal, and Tiscali SpA acted as an advertising agency on its behalf). Since this company does not generate significant volume and the business it performs has now been directly absorbed by the parent company, this equity investment has been included in the disposal plan and, as a result, written down by EUR 6.8 million to bring it into line with its estimated market value based on sales negotiations that are now being finalised.

G.S.T. Gilla Servizi Telecomunicaz. Srl

This company provides call centre services. In September 2004, an agreement was finalised with Omega SpA for the sale of 80% of the stake held. Tiscali SpA still owns 20% of G.S.T. Srl and has an option to sell this stake, which must be exercised in the period 1 October 2005-31 December 2005. This equity investment was therefore moved to current assets under item C) III 1).

Ideare SpA (EUR 3 million)

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

In February 2005, Tiscali SpA purchased the remaining 40% of the share capital of Ideare SpA from minority shareholders for a total of EUR 950,000, thereby becoming the sole shareholder.

Informedia Srl in liquidation

This shareholding was written off in 2002. The company started liquidation proceedings in 2003 and was completely wound up in September 2004 without any major distributions and/or use of financial resources.

Liberty Surf Group SA (EUR 265 million)

As at 31 December 2004, Liberty Surf Group SA, a company listed on the Paris stock market (Premier Marché), was the sub-holding company for group activities in France, and represents one of the biggest investments made by the group in previous periods. 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. After that financial year and until accounts were closed in 2003, there were no changes, and there were no events that could result in further write-downs taking into account the trend in profits in the period to 31 December 2003 and profits projected in the business plan developed at that time by the Tiscali group.

In 2004, there were significant changes in the French market, and as a result, in the related competitive environment. This market, where the former incumbent was still dominant, saw a gradual (and in some ways unpredictable) reduction in wholesale ADSL service profitability, which was exacerbated by the presence of several competitors engaging in very aggressive commercial practices. Nonetheless, in 2004 Tiscali's directors determined that France was still a "core country," and as a result, during the last quarter of 2004, a rigorous industrial strategy was put in place to develop ADSL services in unbundled mode through significant investments in the ULL project. This strategy led to good operating results in the last quarter of 2004, with a clear reversal of the trend of previous quarters of the same year (please refer to the Report on operations in the consolidated financial statements).

The expressions of interest in the Liberty Surf Group received from other local and international operators at the end of 2004 and in the early months of 2005 subsequently led Tiscali's directors (in the context of the group's refinancing strategy and the strategy of focusing on "core" European markets) to reconsider the position of the French unit and to assess its potential sale (as more fully described in the Report on operations). Based on a special resolution by Tiscali's board on 3 March 2005, a sales agreement was then signed.

As a result, the book value of the investment in Liberty Surf Group SA was adjusted to market value, which was determined with specific reference to the sale/realisable value established in the agreement with Telecom Italia SpA. This resulted in a write-down of EUR 254 million which, for reasons of prudence and in line with the accruals principle, was recorded in the 2004 accounts.

Quinary SpA (EUR 0.7 million)

This company operates in systems integration and software development. Changes during the year were for the subscription of the subsidiary's capital increase in April 2004 to cover losses.

This equity investment, which was written down considerably (EUR 10 million) in 2003, was adjusted by an additional EUR 1.1 million in 2004 due to the company's poor performance. However, this adjustment had no impact on the profit and loss account since it occurred by reallocating the provisions for write-downs for this equity investment that were already posted to liabilities among the reserves for risks and future liabilities, since they were to be used to cover losses exceeding book value.

Quinary is still undergoing a reorganisation aimed at redefining its role within the Tiscali group. The residual book value of the holding can be considered mainly to goodwill.

STS Studi Tecnologie e Sistemi Srl (EUR 0.5 million)

This company operates in the production and development of software and IT systems. In 2004, Tiscali ceased to hold a controlling interest in the company; as at 31 December 2004 its direct and indirect stake in STS Srl totalled 35%. It lost its controlling interest in the company in September 2004 when it sold a15% stake.

As a result of the above, this equity investment, which was previously reported among investments in subsidiaries, was reclassified as an investment in an affiliated company and written down by EUR 800,000 as a result of the value assigned to this asset which was determined when the controlling interest was sold.

Tiscali AG

The controlling interest in the ISP held by the Tiscali group in Switzerland (about 83% of capital), which is included in the Tiscali group's disposal plan, was sold in an agreement finalised in September 2004. This sale resulted in a charge of EUR 12.7 million on the balance sheet of Tiscali SpA. The charge had already been recorded as a write-down in 2004, based on the content of the sales agreement.

Tiscali Business Service SpA (EUR 1.3 million)

This ISP specialises in business telecommunications services. The entire share capital of the company (formerly Nextra SpA) was acquired from the Norwegian companies Telenor Business Solution AS and Telenor Business Solutions Holding AS in 2003. In 2004, there were no changes in this stake. As stipulated in the Tiscali group's plan to integrate business services in the Italian market, this equity investment was transferred at book value to the subsidiary Tiscali Italia Srl as a part of the transfer transaction completed in January 2005 (described in more detail in the Report on operations).

Tiscali Czech Republic so

This is a small stake held in a non-operating company in The Czech Republic, whose liquidation procedure was concluded in January 2005.

Tiscali Deutschland GmbH (EUR 36.4 million)

Tiscali Deutschland GmbH owns a substantial proportion of the group's strategic operating assets in Germany which are managed by Tiscali GmbH. During the period under review, there were no changes in the equity investment.

The results of the impairment test, which was based on the discounted cash flow methodology specified in the business plan, led to confirmation of the equity investment's book value, since there were no circumstances that would dictate a reduction in the value of the underlying operating assets. See the Report on operations for additional details on the operating performance of Tiscali's German subsidiaries.

Tiscali Finance SA (EUR 0.1 million)

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. This amount was recorded under provisions for risks and future liabilities in the previous period and was earmarked to remedy the negative shareholders' equity position.

Tiscali Italia Srl (formerly Andaledda SpA) (EUR 0.1 million)

The wholly-owned non-operating subsidiary, Andaledda SpA, was renamed Tiscali Italia Srl in October 2004. As a part of the project to streamline the Tiscali group's structure (as described in the Report on operations), effective on 1 January 2005, all the operating activities of Tiscali SpA in Italy were transferred to Tiscali Italia Srl including: the consumer, business, media and technology businesses; the Italian network infrastructure; staff activities; and licences and authorisations for telecommunications and internet services with a total value of EUR 185.9 million, which resulted in an increase of the same amount in the book value of the equity investment.

The EUR 600,000 increase in the value of the equity investment was for a capital increase carried out by the parent company through the conversion of a receivable from the subsidiary to capital.

Tiscali Media Srl

This company was established in September 2004 with Tiscali SpA as the sole shareholder. Its purpose is to develop press content for the Tiscali portal. This equity investment was transferred (in the transaction described above) to Tiscali Italia Srl in January 2005 at book value.

Tiscali Motoring Srl (EUR 0.5 million)

The book value of this equity investment, which is currently in liquidation, is equal to the goodwill of the "auto website."

Tiscali Service Srl (formerly Tiscali I.T.S. Srl) (EUR 1.6 million)

Tiscali I.T.S. Srl changed its name to Tiscali Service Srl in November 2004. Like Tiscali Italia Srl, it was involved in the transfer of the operating assets of Tiscali SpA, which was finalised on 1 January 2005. Specifically, all the IT, media development and new product assets for group-wide use by were transferred to Tiscali Service Srl, with a total equivalent value (and corresponding increase in the book value of the equity investment) of EUR 3.8 million.

Tiscali Telecomunicaciones SA (EUR 0.1 million)

The value of this company, one of the group's operating companies in Spain (after write-downs booked in previous years) is EUR 0.1 million.

World Online International NV (EUR 1.206 million)

This is a sub-holding company based in the Netherlands, which, as at 31 December 2004, controlled Tiscali group companies operating in several European countries, including the UK, the Netherlands, Spain and the Czech Republic. World Online also indirectly controls the companies operating the network of Tiscali International Network NV and related subsidiaries ("Tinet") together with a German operating company, Tiscali Business GmbH, which operates in the area of business services in Germany. Until 31 December 2003, World Online International NV owned (through its direct subsidiary Tiscali International BV) a controlling interest in other equity investments that operated in countries later removed from Tiscali's strategic plan, and which were therefore sold. Specifically, in 2004 Tiscali International NV sold Tiscali Osterreich Gmbh (Austria), Tiscali AS (Norway) and Tiscali AB (Sweden), while the sale of Tiscali Pty Limited (South Africa) and the Danish subsidiary Tiscali Denmark A/S were finalised at the beginning of 2005.

The impairment test of the book value of Tiscali's equity investment in World Online International NV as at 31 December 2004 (net of write-downs for permanent losses of EUR 400.7 million which were posted in 2001) was carried out based on the assumptions indicated in the introduction to comments on equity investments.

The value of World Online International NV, which, in this case, was largely represented by the value of the Dutch sub-holding company's underlying equity investments, was determined using a valuation approach focused on the following key aspects: (i) for existing equity investments and assets as at 31 December 2004, which were sold after the end of the financial year (Denmark, South Africa and certain Tinet assets) or for assets that are likely to be sold since they are not related to "key countries" (Spain), the sale and/or prospective realisable values were used; (ii) the value of subsidiaries of World Online International NV operating in strategic countries was determined by discounting the projected cash flows reported in the Tiscali group's business plan.

Given the substantial value of the assets sold or to be sold the results of the impairment test were significantly affected by values associated with these assets, or by their respective realisable values. In this context, and as with the valuation of the equity investment in Liberty Surf Group, it became clear that the valuation approach differed according to the "strategic" status of the asset being tested, and that the equity value calculated with the commonly used DCF methodology could differ substantially from values calculated on the basis of a prospective sale ("discontinuing operation/held for sale" in IAS terminology) or pure realisation, rather than on the basis of maintaining the assets.

The application of the valuation method described resulted in a total write-down of EUR 190 million for the stake held in World Online International NV; this write-down was mainly the result of the following circumstances: (i) the market value of assets sold and/or being sold valued, as indicated above, using an outlook that is radically different from that of maintaining and managing the assets, which was adopted for preparing the 2003 financial statements and reflected in the consultant's report noted earlier; (ii) the value of the strategic assets, and in particular, the value of the subsidiaries operating in The UK and Netherlands, was determined on the basis of the new business plan which calls for significant investments over the next three years. For the purposes of this impairment test (using the DCF method), a limited time horizon was conservatively assumed focusing primarily on the years when significant investments will be made.

AFFILIATED COMPANIES	BALANCE 31.12.2003	INCREASES	(DISPOSALS)	WRITE-UPS (DOWNS)	OTHER CHANGES	BALANCE 31.12.2004
Janna S.C.p.a.	34	-	-	-	-	34
STS Studi Tecnologie e Sistemi Srl	-	480	-	-	-	480
STUD Soc. Consortile Arl	15	-	-	-	-	15
	49	**480**	**-**	**-**	**-**	**529**

Investments in affiliated companies" included the equity investment in STS Studi Tecnologie e Sistemi Srl which was moved from "investments in subsidiaries." This reclassification was justified by the absence of the requirement for control due to the sales that occurred in 2004 (see comments above for further details).

Although not significant in absolute terms, it should be noted that the 33.33% stake in Janna S.C.p.a. is important since it concerns a consortium company whose corporate purpose is to install an underwater, fibre-optic ring cable between Sardinia and the Italian peninsula and between Sardinia and Sicily. In March the installation of cable between Civitavecchia and Olbia was completed. At the conclusion of the project, Tiscali will have four fibre-optic cables.

OTHER COMPANIES	BALANCE 31.12.2003	INCREASES	(DISPOSALS)	WRITE-UPS (DOWNS)	OTHER CHANGES	BALANCE 31.12.2004
Crs4	126	-	-	-	-	126
Mix Srl	1	-	-	-	-	1
Tiscali Int.l Network SpA	33	106	-	(36)	(70)	33
	160	**106**	**-**	**(36)**	**(70)**	**160**

With regard to Tiscali International Network SpA, 10% is owned by Tiscali SpA and the remaining 90% by Tiscali International Network SA, which is wholly-owned by Tiscali SpA through the Dutch sub-holding company, Tiscali International BV. Thus, Tiscali has an indirect controlling interest in this subsidiary totalling 100%.

The changes in the value of the investment in Tiscali International Network SpA were due to Tiscali's waiver of receivables it had on its books from that company.

Other information

Holdings in subsidiaries

COMPANY NAME	HEAD OFFICE	SHARE CAPITAL	SHAREHOLDERS' EQUITY	NET PROFIT OR (LOSS)	% HELD	BOOK VALUE
Best Engineering SpA (***)	Turin	775	2,156	(149)	60.00%	-
Connect Software Inc (*)	San Francisco (USA)	48	(43)	(2)	100.00%	-
Energy Byte Srl (**)	Milan	129	36	(165)	100.00%	-
Excite Italia BV (***)	Amsterdam	76	3,123	255	100.00%	6,000
Ideare SpA (***)	Pisa	520	2,116	(650)	60.00%	2,998
Liberty Surf Group SA (***)	Paris	75,280	53,447	(35,018)	94.50%	265,000
Quinary SpA (***)	Milan	400	(714)	(1,507)	84.97%	687
Tiscali Business Service S.p.A. (***)	Casalecchio di Reno (BO)	120	343	95	100.00%	1,252
Tiscali Czech Republic sro (**)	Prague	505	(43)	(23)	100.00%	-
Tiscali Deutschland Gmbh (***)	Hamburg	74,496	(124,769)	4,375	100.00%	36,387
Tiscali Finance SA (***)	Brussels	125	(4,602)	15,502	100.00%	125
Tiscali Italia Srl (formerly Andaledda SpA) (***)	Cagliari	103	113	36	100.00%	103
Tiscali Media Srl (***)	Cagliari	10	8	(2)	100.00%	10
Tiscali Motoring Srl(**)	Cagliari	100	25	(75)	60.00%	500
Tiscali Service Srl (formerly Tiscali I.T.S. Srl) (***)	Cagliari	780	1,439	0,6	100.00%	1,593
Tiscali Telecomunicaciones SA (***)	Madrid	2,100	(13,774)	(765)	99.99%	125
World Online International NV (**)	Maarsen (NL)	115,519	1,224,786	-	99.49%	1,206,272
						1,521,052

(*) Figures from the accounts at 31/12/2002
(**) Figures from the accounts at 31/12/03
(***) Figures from updated accounting position at 31/12/2004

Partecipazioni in imprese collegate

COMPANY NAME	HEAD OFFICE	SHARE CAPITAL	SHAREHOLDERS' EQUITY	NET PROFIT OR (LOSS)	% HELD	BOOK VALUE
Ariete Telemedia Srl (**)	Milan	52	15	(31)	40%	-
FreeTravel SpA in liquidation (**)	Milan	500	142	(12)	50%	-
Netchemya SpA in liquidation (**)	Milan	22,750	5,224	(3,271)	20%	-
Janna SCpa (**)	Cagliari	200	155	(43)	33.33%	34
STS Srl (***)	Rome	100	66	(230)	(^) 20%	480
STUD Soc. Consortile Arl (*)	Cagliari	45	43	(5)	33.33%	15
Gilla Servizi Telecomunicaz. Srl (***)	Cagliari	50	64	14	20%	-
						529

(*) Figures from the accounts at 31/12/02
(**) Figures from the accounts at 31/12/03
(***) Figures from the accounts at 31/12/04
(^) 15% held by Energy Byte Srl in liquidation

Financial receivables

Other receivables, all of which are payable after one year, related to Eurolight Associates Ltd, which bought Tiscali's stake in the Czech company CD Telekomunikace Sro at the beginning of 2003. At the time of the acquisition, the stake was transferred with the pre-existing debt owed by CD Telekomunikace to Tiscali SpA. The receivable, which has a book value of EUR 2 million, was written down by EUR 6 million during the year. The recovery of the receivable is tied to an agreement signed by Tiscali and CD Telekomunikace for the purchase of services (capacity, fibre optics) by the Tiscali subsidiary operating in that country. The estimated realisable value takes into account the time needed to purchase the services, and is affected significantly by the delay in the development of the fibre optic market in The Czech Republic, compared to what was reasonably projected at the end of the previous year.

CURRENT ASSETS

I – Inventories

The table below shows the changes in inventories.

RAW MATERIALS, SUPPLIES AND CONSUMABLES	31.12.2004	31.12.2003
Consumables and telephone cards	440	218
Goods for resale	137	723
Contract work in progress	652	1,431
	1,229	**2,372**
Less: reserve for obsolescence	(115)	-
	1,114	**2,372**

The book value is made up of goods for resale and consumables; these consist primarily of modems for ADSL services. "Contract work in progress" primarily includes progress on projects being completed for the region of Sardinia.

II – Receivables

Receivables from customers

The table below shows figures for receivables.

	31.12.2004	31.12.2003
Receivables from customers	63,743	61,665
Less: write-down provisions	(17,481)	(12,566)
	46,262	**49,099**

The increase in overall receivables was affected by the growth in business in 2004.

Receivables from subsidiaries and affiliated companies

Receivables from group companies are detailed below.

	FINANCIAL RECEIVABLES DUE WITHIN 1 YEAR	FINANCIAL RECEIVABLES DUE AFTER 1 YEAR	TRADE RECEIVABLES DUE WITHIN 1 YEAR	TRADE RECEIVABLES DUE AFTER 1 YEAR	TOTAL
SUBSIDIARIES					
Best Engineering SpA	-	-	833	-	833
Energy Byte Srl	136	-	-	-	136
Excite Italia BV	760	-	737	-	1,497
Ideare SpA	-	-	108	-	108
Liberty Surf Group SA	-	-	287	-	287
Quinary SpA	264	-	92	-	356
Tiscali Deutschland Gmbh	-	17,328	4,019	-	21,347
Tiscali Finance SA	-	-	138	-	138
Tiscali International NV	-	-	1,174	-	1,174
Nacamar Luxemburg Sarl	-	-	1	-	1
Tiscali Business Gmbh	-	-	11,165	-	11,165
Tiscali A/S (Denmark)	-	-	902	-	902
Tiscali BV	-	-	7,057	-	7,057
Tiscali España SLU	9,862	-	5,219	-	15,081
Tiscali PTY Ltd	-	-	1,626	-	1,626
Tiscali Telekomunikace sro	-	-	1,533	-	1,533
Tiscali UK Ltd	-	-	6,785	-	6,785
Tiscali International Network SA	40	-	334	-	374
Tiscali International Network BV	-	-	207	-	207
Tiscali International Network SAU	-	-	37	-	37
Tiscali International Network SpA	602	-	604	-	1,206
Tiscali Motoring Srl	225	-	3	-	228
Tiscali Telecomunicaciones SA	1	-	1,538	-	1,539
Tiscali Italia Srl	325	-	-	-	325
Connect Software Inc	56	-	-	-	56
Surfeu Finland OY	7	-	-	-	7
Tiscali Services Srl	3,589	-	-	-	3,589
Tiscali Czech Republic sro	-	-	7	-	7
Tiscali Business Service SpA	517	-	59	-	576
Tiscali Media Srl	46	-	5	-	51
	16,430	**17,328**	**44,470**	**-**	**78,228**

Financial receivables from subsidiaries, and especially those of a long-term nature, are a form of capital support for which the parent company has formalised their subordination to other payables reported in the accounts, and/or the parent company has indicated its intention to convert them into a capital increase and/or to use them to replenish losses incurred by subsidiaries as necessary. This was the case for the EUR 17.3 million receivable from Tiscali Deutschland Gmbh.

The financial receivable of EUR 9.9 million from Tiscali España SL relates to the Spanish subsidiary's acquisition of the internet access and fixed-line business of the Vodafone group in Spain, which trades under the name of Airtelnet.

Trade receivables relate to the billing of group companies for IT and housing and hosting services carried out by the parent company, as well as the allocation of costs incurred by Tiscali SpA for activities pertaining to subsidiaries ("management fees").

Receivables from others

"Receivables from others" were for receivables with a small unit value from various entities.

Tax receivables

	31.12.2004	31.12.2003
Due within one year		
Tax receivables		
Withholding taxes	461	458
Receivables for contributions under Law 388	57	-
Tax credits on dividends	2,203	4,688
VAT refunds receivable	14,402	15,048
VAT receivables	9,405	14,728
Interest receivable on taxes to be refunded	620	449
	27,149	**35,371**

"Tax credits on dividends" includes tax credits resulting from the payment of dividends in 2002 by Tiscali ITS International Technology Services Srl, which was acquired that year. The reduction compared to 2003 was due to the sale of a part of the receivable to several subsidiaries.

As at 31 December 2004, "VAT refunds receivable" totalled EUR 14.4 million and were the result of refund requests submitted in 2003 and 2004.

Deferred taxes

	31.12.2004	31.12.2003
Deferred taxes		
Credits for deferred tax assets	45,000	-
	45,000	**-**

These deferred taxes were recorded during the financial year based on the reasonable certainty that Tiscali SpA would generate taxable income in 2005, taking into account the capital gain of about EUR 160 million from the transfer transaction carried out in January 2005 and already described in the Report on operations and comments on equity investments in this section of the notes to accounts. In this connection, it should be noted that with effect from 1 January 2005, following the transfer of its operating activities, Tiscali SpA acts solely as a holding company and only incurs general and administrative expenses. These expenses are easy to project, and thus, a taxable profit in 2005 is reasonably certain, and will allow for the recovery of the pre-paid taxes. As a result, the "recovery" of deferred taxes, with a charge to the profit and loss account, is expected to occur next year.

Past deductible tax losses are reported in the following table by year of occurrence (figures in EUR 000):

YEAR OF OCCURRENCE	AMOUNT OF TAX LOSS	TAX EFFECT (33% TAX RATE)	YEAR OF EXPIRY
1999 and previous years	10,639	3,511	No expiry
2000	33,332	10,999	2005
2001	450,665	148,720	2006
2002	46,543	15,359	2007
2003	178,463	58,893	2008
2004 (*)	128,758	42,490	2009
Total tax losses	848,400		
(a) Deferred taxes related to tax losses		**279,972**	
Temporary differences	251,130		
(b) Net deferred taxes (charges) related to temporary differences		**82,873**	
Total deferred taxes (a + b)		362,845	
Recorded deferred taxes		(45,000)	
Unrecorded deferred taxes		317,845	

(*) Estimate

The rate used for calculating the tax effect on past losses and on temporary differences from taxing certain components of the profit and loss account was 33%, the corporate income tax rate. Based on its specific nature, it was decided not to use IRAP (regional tax on manufacturing activities) for these calculations.

The tax losses for 1999 and previous financial years were finalised as a result of the definition of the terms of the tax assessment, and for 2001 and 2002 as a result of a definitive tax assessment.

It should be stressed that the recording of deferred taxes was limited to EUR 45 million, and thus, the remaining amount of EUR 317.8 million was not taken into account since Tiscali's directors took the prudent approach, based on the business plan for 2005-2009, that the requirements reporting this amount had not been met (i.e. the recovery of this amount was not reasonably certain).

To provide a more complete picture, the following table includes temporary differences for taxation purposes broken down by the main line items. These differences largely related to deferred tax assets (figures in EUR 000).

	31.12.2004
Deferred tax assets	
Write-downs of equity investments	227,488
Write-downs of receivables	16,998
Other differences	6,644
Total	**251,130**

Since there was a loss in 2004, it was not deemed necessary to include the table showing a reconciliation between the ordinary and actual rate.

BREAKDOWN OF RECEIVABLES BY DUE DATE

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

CURRENT ASSETS	31.12.2004 RECEIVABLES FALLING DUE		
	UP TO ONE YEAR	BETWEEN 1 AND 5 YEARS	OVER 5 YEARS
Receivables:			
from customers	46,262	-	-
from subsidiaries	60,900	17,328	-
tax receivables	27,149	-	-
deferred tax assets	45,000	-	-
from others	4,061	172	-
	183,372	**17,500**	**-**

With regard to the breakdown of receivables by geographical area, all receivables relate to EU countries.

IV – Cash and cash equivalents

Cash and cash equivalents break down as follows:

CASH AND CASH EQUIVALENTS	31.12.2004	31.12.2003
Bank and post office deposits	48,873	3,599
Cash and other negotiable instruments	53	119
	48,926	**3,718**

The significant increase in bank and post office deposits as at 31 December 2004 over the previous year was due to the capital increase with a nominal value of EUR 50 million which was subscribed by Société Générale on 30 December 2004. This operation, which has already been mentioned, resulted in net proceeds of EUR 45.9 million.

D) Accrued income and deferred charges

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

	31.12.2004	31.12.2003
Accrued income		
ADSL revenues	222	2,320
Other accrued income	4	5
	226	**2,325**
Deferred charges		
Circuit rental fees	4,199	-
Lease payments	1,481	229
Rentals	116	48
ADSL expenses	5,051	1,802
Other deferred charges	2,220	990
	13,067	**3,069**
Accrued income and deferred charges	**13,293**	**5,394**

Deferred circuit rental fees included EUR 4.2 million in pre-paid fees for connectivity services primarily for the supplier Telecom Italia.

Deferred ADSL charges (EUR 5 million) included portions of costs incurred in a lump sum to acquire new customers and for customer installations of ADSL services (“installation fees” and “device/modem”). As indicated in the section on accounting policies, these costs are allocated over a period of 36 months which corresponds to the average useful life of the ADSL customer portfolio taken from company data ("churn rate”). The increase over year-end 2003 was due to growth in ADSL services.

The remaining balance of deferred charges was for portions of costs for lease payments, insurance services, the acquisition of content for portals and costs incurred for miscellaneous services.

LIABILITIES AND SHAREHOLDERS’ EQUITY

A) Shareholders' equity

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

	SHARE CAPITAL	SHARE PREMIUM RESERVE	NET PROFIT (LOSS) FOR THE YEAR	TOTAL
Balance as at 31.12.02	**180,867**	**1,632,896**	**(152,297)**	**1,661,466**
Distribution of profits	-	(152,297)	152,297	-
Other changes	3,593	26,086	-	29,679
Net profit (loss) for the year	-	-	(114,535)	(114,535)
Balance as at 31.12.03	**184,460**	**1,506,686**	**(114,535)**	**1,576,612**
Distribution of profits	-	(114,535)	114,535	-
Other changes	12,159	48,723	-	60,882
Net profit (loss) for the year	-	-	(489,778)	(489,778)
Balance as at 31.12.04	**196,619**	**1,440,874**	**(489,778)**	**1,147,715**

At 31 December 2004, the company's share capital was EUR 196,619,071 consisting of 374,838,142 ordinary shares with a nominal value of EUR 0.50 each.

At the extraordinary general meeting held on 6 May 2004, shareholders voted to cover losses relating to the 2003 financial year by using EUR 114,534,520 from the share premium reserve.

Other increases in capital and in the share premium reserve that occurred during the year were carried out to cover acquisition transactions and transfers of receivables. During the course of the financial year, a total of 5,917,715 shares were issued, with a nominal value of EUR 2,958,859. Increases in the share premium reserve totalled EUR 7,856,315. On 30 December 2004, 18,400,000 ordinary shares were issued to cover the increase in share capital subscribed by Société Générale on the same date. The increase of EUR 50,066,400 was in the form of cash.

The table below provides a breakdown of shareholders' equity to indicate how reserves can be used for tax purposes.

Breakdown of shareholders' equity

		AMOUNT	POTENTIAL USES	AMOUNT AVAILABLE	AMOUNT DISTRIBUTABLE WITHOUT TAX EFFECT	AMOUNT DISTRIBUTABLE WITH TAX EFFECT	SUMMARY OF USES IN 3 PREVIOUS YEARS: COVERAGE OF LOSSES	SUMMARY OF USES IN 3 PREVIOUS YEARS: OTHER
I	Share capital	196,619						
II	Share premium reserve	1,440,874	A,B	1,440,874	-	-	1,308,040	-
III	Revaluation reserve	-		-	-	-	-	-
IV	Legal reserve	-		-	-	-	-	-
V	Statutory reserves	-		-	-	-	-	-
VI	Reserve for own shares held	-		-	-	-	-	-
VII	Other reserves							
VIII	Retained earnings (losses carried forward)	-		-	-	-	-	-
IX	Profit (loss) for the year	(489,778)		-	-	-	-	-
		1,147,715		**1,440,874**	**-**	**-**	**1,308,040**	**-**

Potential uses - Legend
A For capital increases
B To cover losses
C For distributions to shareholders

Pursuant to art. 2430 of the civil code, no amount was considered distributable since the legal reserve had not reached the minimum level required by law.

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

	ISSUE DATE	NO. OF SHARES ISSUED	SHARE CAPITAL INCREASE	SHARE PREMIUM RESERVE
Issuance of Eunet EDV shares (Eunet AG Austria)	24/02/2004	3,604,899	1,802,450	242,223
Issuance of Blomberger Sverige shares (Home.sa AB)	17/02/2004	333,189	166,595	336,916
Issuance of Via Net.Work UK Ltd shares	24/05/2004	1,060,249	530,125	4,486,865
Issuance of shares for Az.Jean Philippe Iliesco De Grimaldi (Transfer of Tiscali Int. BV receivable)	01/07/2004	919,378	459,689	2,790,311
Issuance of 18,400,000 shares to Société Générale	30/12/2004	18,400,000	9,200,000	40,866,400
		24,317,715	**12,158,859**	**48,722,715**

Share capital composition (No. of shares - 000) Nominal value of each share Euro 0.50

CATEGORY	31.12.2003	INCREASES	(DECREASES)	31.12.2004
Ordinary shares	368,920,427	24,317,715	-	393,238,142
Total	**368,920,427**	**24,317,715**	**-**	**393,238,142**

B) Provisions for risks and future liabilities

	BALANCE 31.12.2003	PROVISIONS	(AMOUNTS USED)	OTHER CHANGES	BALANCE 31.12.2004
Write-down provisions (equity investments)	22,374	-	(3,154)	-	19,220
Other risk provisions	1,063	-	(280)	202	985
	23,437	**-**	**(3,434)**	**202**	**20,205**

Uses of the provisions for risks and future liabilities were primarily for the subsidiaries Quinary SpA and G.S.T. Srl (Gilla).

Amounts used and recorded under "other changes" referred to the restatement of a proportion of the provisions used to reduce the value of equity investments.

As at 31 December 2004, the balance of the provisions under review included EUR 18.7 million for Tiscali Finance SA, with other small equity investments accounting for the remaining EUR 0.5 million.

C) Staff severance fund

	BALANCE 31.12.2003	PROVISIONS	(AMOUNTS USED)	OTHER CHANGES	BALANCE 31.12.2004
Manual workers	25	8	(1)	3	35
Office staff	3,749	1,494	(361)	(25)	4,857
Senior managers	459	203	(89)	(2)	571
	4,233	**1,705**	**(451)**	**(24)**	**5,463**

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

D) Payables

Due to banks

	31.12.2004	31.12.2003
Advances and overdrafts	19,932	30,263
Medium-/long-term loans (CIS)	34,802	33,503
Total	**54,734**	**63,766**

The amounts due to banks included EUR 34.8 million for long-term mortgage loans and EUR 19.9 million in short-term lines of credit from banks (for advances and overdrafts). The medium-/long-term loan was obtained from Banca CIS, has a term of 10 years and accrues interest at a variable rate of 6-month Euribor plus 1.2%. The amount of the loan falling due by year-end 2005 is EUR 4.2 million.

The decrease in the "due to banks" item was mainly due to the repayment of an advance of about EUR 8.5 million in relation to VAT receivables.

Due to other financial institutions

	31.12.2004	31.12.2003
Due to other financial institutions	587	26

As at 31 December 2004 this item included loans received from Cisco Systems Capital Srl to finance the investment in equipment for the ULL network; these loans are repayable in three years. In order to finance investments during the year, the company obtained lines of credit from Cisco Capital totalling EUR 29 million; most of this was used for financial leasing transactions.

Payables to suppliers

	31.12.2004	31.12.2003
Payables to suppliers	143,686	111,892

Payables to suppliers were for the purchase of services and/or tangible and intangible assets. Payables to suppliers included transactions with Telecom Italia SpA. As at 31 December 2004, the payable to this company was EUR 25 million net of receivables, and was largely a medium-/long-term payable related to investments made for the ULL networks.

To be specific, the year-end 2004 balance included a payable of EUR 27.4 million for the purchase of the IRUs required to support investments for the ULL project made primarily in the last quarter of 2004, and for network expansions completed in previous years. Of this amount, EUR 22.8 million is repayable over the medium/long term. For further information, please refer to the summary of payables by maturity provided below.

Payables to suppliers also included a payable of EUR 10 million to Nortel Network SpA that was later financed by a specific medium-/long-term loan. In October 2004, the group obtained a credit facility from the Canadian company EDC (Export Development Canada) for a total of EUR 30 million, in relation to investments made with Nortel. This loan has a specific covenant relating to the ratio of total consolidated shareholders' equity to total consolidated assets. See the notes to the consolidated accounts for further information.

The increase in payables to suppliers was due to the significant investments noted above.

Due to subsidiaries

	31.12.2004	31.12.2003
Due to subsidiaries	538,759	539,398

Intragroup payables break down as follows:

	FINANCIAL PAYABLES		TRADE PAYABLES		TOTAL
	DUE WITHIN 1 YEAR	DUE AFTER 1 YEAR	DUE WITHIN 1 YEAR	DUE AFTER 1 YEAR	
SUBSIDIARIES:					
Energy Byte Srl	2	-	94	-	96
Excite Italia BV	176	-	3,510	-	3,686
Ideare SpA	1,030	-	898	-	1,928
Liberty Surf Group SA	12,697	-	385	-	13,082
Quinary SpA	243	-	261	-	504
Tiscali Deutschland Gmbh	-	-	1,798	-	1,798
Tiscali Finance SA	3,058	-	6	-	3,064
Tiscali International BV	497,185	-	10,555	-	507,740
Tiscali Business Gmbh	-	-	383	-	383
Tiscali BV	-	-	424	-	424
Tiscali España SL	-	-	154	-	154
Tiscali PTY Ltd	-	-	77	-	77
Tiscali Telekomunicace sro	-	-	83	-	83
Tiscali UK Ltd	-	-	605	-	605
Tiscali Motoring Srl	77	-	16	-	93
Tiscali Media SA	-	-	96	-	96
Tiscali Telecomunicaciones SA	-	-	290	-	290
Tiscali Italia Srl	1	-	-	-	1
Tiscali Services Srl	1,796	-	-	-	1,796
Tiscali International Network BV	-	-	967	-	967
Tiscali International Network SpA	309	-	492	-	801
Tiscali Business Service SpA	983	-	108	-	1,091
	517,557	**-**	**21,202**	**-**	**538,759**

Payables to the group's subsidiaries and affiliated companies mainly related to Tiscali International BV. This item remained largely unchanged from 2003. It should be noted that the loan agreement with the subsidiary (the sub-holding company of the Tiscali group) does not call for the assessment of interest charges (interest-free loan).

In the second half of 2004, an interest-bearing loan was provided to Tiscali SpA by Liberty Surf Group SA at a rate of 3.62% for the initial principal of EUR 30 million. This loan was partially repaid in 2004. The remaining loan outstanding as at 31 December 2004 (EUR 12.7 million) was repaid in February 2005.

Taxes payable

	31.12.2004	31.12.2003
Taxes payable	2,473	1,917

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

Due to social security authorities

	31.12.2004	31.12.2003
Due to social security authoritie	3,858	2,141

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

Other payables

	31.12.2004	31.12.2003
Payables to directors (emoluments)	711	517
Payables to employees (accrued compensation)	5,665	5,021
Other payables	994	2,728
Total	**77,370**	**8,266**

"Payables to directors" include emoluments.

"Payables to employees" include compensation accrued through 2004 to be paid in the following year, and payables for holiday due and not taken

BREAKDOWN OF PAYABLES BY DUE DATE

	FINANCIAL AND OTHER PAYABLES			TRADE PAYABLES		
	DUE WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS	DUE WITHIN 1 YEAR	1 TO 5 YEARS	OVER 5 YEARS
Payables:						
to banks	24,112	12,807	17,814	-	-	-
to other financial institutions	217	370	-	-	-	-
to suppliers	-	-	-	110,921	15,511	17,254
Taxes payable	2,473	-		-	-	-
To social security authorities	3,858	-	-	-	-	-
To others	7,370	-	-	-	-	-
	38,030	**13,177**	**17,814**	**110,921**	**15,511**	**17,254**

With regard to the breakdown of payables by geographical area, all payables relate to EU countries.

Accrued liabilities and deferred income

Accrued liabilities and deferred income break down as follows.

	31.12.2004	31.12.2003
Accrued liabilities		
Accrued compensation	834	908
Other	7	87
	839	**995**
Deferred income		
ADSL revenues	1,006	495
Pre-paid internet services	590	1,118
Pre-paid voice services	1,737	2,311
Deferred income for contributions under law 388, art. 8	57	-
Long-term deferred income	2,833	-
Other	2,972	1,495
	9,196	**5,419**
Total	**10,035**	**6,414**

“Accrued compensation” included allocations for summer bonuses accrued during the year.

"Deferred income” was for portions of revenues applicable to the subsequent year. Specifically, the recorded balance included EUR 1.3 million for ADSL service revenues, EUR 0.6 million for internet services and EUR 1.8 million for the sale of pre-paid phone cards (voice services).

“Long-term deferred income” included EUR 2 million for a service contract and EUR 0.8 million for the pre-invoiced sale of software.

The remainder of EUR 2.9 million (“Others”) included EUR 600,000 in Telecom Italia charges, EUR 0.1 million in contributions for broadband users already collected by the government and EUR 1.9 million for other miscellaneous revenues.

Memorandum accounts

	31.12.2004	31.12.2003
GUARANTEES GIVEN		
Sureties	500,931	565,977
	500,931	**565,977**
OTHER MEMORANDUM ACCOUNTS		
Leasing payments falling due	19,287	28,292
Commitments	4,429	15,879
	23,716	**44,171**
GUARANTEES RECEIVED		
Sureties	858	1,826
	858	**1,826**
	525,505	**611,974**

Sureties issued to third parties included EUR 459.5 million in guarantees given in relation to the bond issued by the subsidiary Tiscali Finance SA, of which the remaining balance as of 31 December was EUR 459 million.

See the Report on operations and notes to the consolidated financial statements for further information on these loans, on the financial strategy for repayments in July 2005 and September 2006, and on the related covenants.

ISSUER	NOMINAL VALUE	YIELD	MATURITY	GUARANTOR
Tiscali Finance SA	250,000	Euribor +3.25%	July 2005	Tiscali SpA
Tiscali Finance SA	209,500	4.25%	September 2006	Tiscali SpA
	459,500			

The reduction in memorandum accounts was primarily due to the EUR 150 million bond payment due in July 2004 and the reduction in maturing lease payments. The payment amounts and years to which they relate are shown below.

YEAR	LEASE PAYMENTS
2005	11,215
2006	6,401
2007	1,671
	19,287

With regard to financial leasing transactions and their recording in the accounts, see the comments above on tangible assets.

Commitments included EUR 2.5 million in guarantees of various types issued in favour of group companies and EUR 1.3 million for the commitment made to the tax authorities to settle the group's VAT payments.

A) Value of production

Revenues from sales and services

BREAKDOWN BY BUSINESS AREA:	31.12.2004	31.12.2003
Access	118,554	99,858
Telephone services	34,942	29,464
Portal	10,349	14,095
Business services	10,930	8,406
Other services	22,283	23,062
Total	**197,058**	**174,885**

Overall, revenues increased by +12.7% on the previous year. This growth was due to increased access revenues (+18.7%), business services revenues (+30%) and telephone services revenues (+18.6%), which were partially offset by the decline in portal revenues (-26.6%).

The increase in access revenues was due to ADSL revenue growth (+EUR 22.7 million), while dial-up revenues were down slightly (-EUR 1 million). However, online minutes fell from 8.1 billion in 2003 to 6.3 billion in 2004.

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 23.4 million, as shown in more detail below.

INTRAGROUP REVENUES

	TOTAL
Best Engineering SpA	12
Energy Byte Srl	605
Gilla Servizi telecomunicazioni Srl (formerly Gilla SpA)	30
Ideare SpA	17
Liberty Surf Group	246
Tiscali Luxembourg Sarl	9
Quinari SpA	193
STS Srl	13
Tiscali A/S (Denmark)	656
Tiscali AB (Sweden)	544
Tiscali AS (Norway)	323
Tiscali BV	3,158
Tiscali Business Gmbh	3,532
Tiscali Business Services SpA	1,116
Tiscali Datacomm AG	601
Tiscali Deutschland Gmbh	509
Tiscali España SLU	1,279
Tiscali International BV	954
Tiscali International Network BV	219
Tiscali International Network SA	97
Tiscali International Network SpA	575
Tiscali Media Srl	5
Tiscali Oesterreich Gmbh	419
Tiscali PTY Ltd	513
Tiscali SA / NV	883
Tiscali Telecomunicaciones SA	144
Tiscali Telekomunicace sro	684
Tiscali UK Ltd	6,081
	23,417

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 were generated from 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)

	31.12.2004	31.12.2003
Increases in assets for work in progress (internal)	1,938	1,174

The EUR 1.9 million increase was due to the capitalisation of internal costs involved in the production and development of management software to be used within the group.

Other income

	31.12.2004	31.12.2003
Contributions to the operating account	2,624	2,865
Other income	122	9
Total	**2,746**	**2,874**

"Other income" included EUR 1 million in contributions received in respect of incentives provided under art. 8 of Law 388 on investments and EUR 200,000 in similar contributions received in respect of incentives under art. 7 of the same law on job creation. The remainder included EUR 1.4 million in contributions provided by the Communications Ministry for services provided for ADSL (broadband) users.

B) Production costs

Purchases of raw materials, supplies, consumables and other goods

	31.12.2004	31.12.2003
Purchase of goods	2,294	2,843
Purchase of consumables	153	447
Purchase of advertising and promotional materials	144	433
Total	**2,591**	**3,723**

The decrease in "purchase of goods" was mainly attributable to minor purchases for the completion of projects in the B2B service area.

Services costs

	31.12.2004	31.12.2003
Rental of telephone lines and ports	56,684	32,587
Traffic acquisition costs	36,237	39,477
Advertising and promotional expenses	7,238	14,686
Maintenance	11,665	9,208
Advisory services	5,127	5,951
Portal management costs	4,311	5,173
Selling costs	5,825	3,648
Utilities	2,072	1,823
Bank and postal charges	1,105	754
Transport	756	411
Travel costs	1,853	2,210
Other services	13,868	13,161
	146,742	**129,089**

Total services costs increased by 13.7% on the previous year.

The most significant line items are as follows:

• Rental of telephone lines and ports went up by 73.9% as the company took on more production capacity, particularly as regards use of ports and connectivity.

• Traffic acquisition costs rose to EUR 36.2 million and relate to voice services, international and mobile call termination costs and variable interconnection costs.

• Advertising and promotional costs fell by EUR 7.5 million. This item includes the cost of campaigns in Italy and in the rest of Europe. The reduction was due, on the one hand, to the revision of advertising campaign timing and marketing expenses, and on the other, to the fact that the figure for 2004 is being compared to 2003 when ADSL services were launched with the attendant heavy investment.

• Maintenance costs rose to EUR 11.7 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 about EUR 4.5 million for costs incurred on behalf of other group companies and passed on to them (see comments on revenues), EUR 2.6 million for general services, EUR 2.8 million for miscellaneous expenses relating to sales and invoicing, EUR 0.8 million for emoluments to members of corporate bodies and EUR 3.2 million for production-related services.

INTRAGROUP PRODUCTION COSTS

Intragroup production costs break down as follows:

	TOTAL
Best Engineering SpA	203
Excite Italia BV	1,542
Gilla Servizi Telecomunicazioni Srl (formerly Gilla SpA)	1,340
Informedia SpA	2
Liberty Surf Group SA	56
Quinary SpA	110
STS Srl	127
Tiscali BV	65
Tiscali Business Service SpA	677
Tiscali Datacomm AG	6
Tiscali Deutschland Gmbh	299
Tiscali España SLU	20
Tiscali Finance SA	6
Tiscali International BV	1,030
Tiscali International Network BV	1,694
Tiscali International Network SpA	624
Tiscali Media Srl	96
Tiscali Oesterreich Gmbh	21
Tiscali SA/NV	64
Tiscali UK Ltd.	1,528
	9,510

The costs invoiced by Gilla Servizi Telecomunicazioni Srl were largely for customer care services and for personnel seconded to the parent company by that company. The controlling interest in the latter was subsequently sold.

The costs debited by Tiscali International Network BV were for the international "backbone," i.e., services related to the Tiscali network.

Costs listed for Excite Italia BV and Tiscali Deutschland Gmbh mainly related 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.

Leasing and rental expenses

	31.12.2004	31.12.2003
Financial and operating leasing fees	16,273	17,522
Rentals	2,964	2,622
Other	715	706
	19,952	**20,850**

The company has existing leasing contracts covering non-current assets. The charges relating to these contracts that fall due each year are debited to the profit and loss account. See the comments on tangible assets for information on the accounting treatment of these contracts, specifically with regard to the current provisions of the Italian civil code and international accounting standards.

Personnel costs

	31.12.2004	31.12.2003
Wages and salaries	28,167	25,645
Social security contributions	7,302	5,820
Staff severance pay	1,705	1,527
Other costs	446	73
	37,620	**33,065**

The increase was due to higher staff numbers (up from 861 at 31 December 2003 to 870 at 31 December 2004), pay rises set out in the supplementary company employment contract and the further reduction in temporary contributions relief.

Other operating expenses

The main items under this heading included payments made to the communications ministry for telecommunications licences, contract penalties for early contract termination and other minor charges. This item rose by EUR 1.1 million versus the previous year.

C) Financial income and charges

Income from equity investments

Income for the year was due to a partial distribution from the liquidation of Netchemya SpA (in liquidation).

Other financial income

The other financial income was partly accrued on VAT refunds receivable and partly on other short-term receivables from customers for late payments.

Interests and other financial charges

INTEREST AND OTHER FINANCIAL CHARGES PAYABLE TO THIRD PARTIES	31.12.2004	31.12.2003
Overdrafts	1,208	1,757
Medium-/long-term bank loans	1,199	283
Other	572	704
Total	**2,979**	**2,744**

Financial charges payable to third parties mainly included accrued interest charges on overdrafts and on the mortgage provided by Banca CIS to finance the construction of the head office in Cagliari.

INTEREST AND OTHER FINANCIAL CHARGES PAYABLE TO SUBSIDIARIES	31.12.2004	31.12.2003
Interest	543	106

The amount of financial charges payable to subsidiaries is not significant since the large payable to the subsidiary Tiscali International BV (the sub-holding company of the Tiscali group) is non-interest-bearing.

EXCHANGE RATE GAINS (LOSSES)	31.12.2004	31.12.2003
Exchange rate gains (losses)	510	172

D) Adjustments to the value of financial assets

This item includes write-downs and revaluations of investments (please see comments on the relevant items).

E) Extraordinary income and charges

Extraordinary income

EXTRAORDINARY INCOME	31.12.2004	31.12.2003
Contingent assets and non-existent liabilities	2,354	20,626

“Contingent assets and non-existent liabilities” primarily include the reversal of costs that were assessed in previous periods but later determined to be non-existent.

Extraordinary charges

EXTRAORDINARY CHARGES	31.12.2004	31.12.2003
Contingent liabilities and non-existent assets	18,193	6,583
Other extraordinary charges	2,780	10,271
Costs not included above	71	604
Total	**21,044**	**17,458**

"Contingent liabilities and non-existent assets" mainly include minor costs applicable to previous periods of EUR 4.3 million, and costs pertaining to certain non-existent non-current assets in light of the revision of the strategic plan. See comments on the related item for further information.

Tax

This item included EUR 45 million for the recording of deferred tax credit. See comments on the corresponding asset item.

Other information

The table below shows a breakdown of employees by category.

Average number of employees

	AVERAGE 2004	31.12.2004	AVERAGE 2003	31.12.2003
Manual workers	7	7	8	8
Office staff	754	754	700	742
Middle managers	70	67	64	72
Senior managers	44	44	35	39
	875	**872**	**807**	**861**

Remuneration of Directors and 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 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					
Vittorio Serafino	Chairman (1)	until next shareholders' meeting	€ 100,000	-	-
Ruud Huisman	CEO (2)	until approval of 2004 results	-	-	€ 250,000
Victor Bischoff	Director (3)	until approval of 2004 results	€ 25,000	-	-
Franco Bernabè	Director (3)	until approval of 2004 results	€ 25,000	-	-
Gabriel Prêtre	Director (4)	until approval of 2004 results	€ 25,000	-	-
Tomaso Barbini	Director (5)	until approval of 2004 results	€ 25,000	-	-
Mario Rosso	Director (5)	until approval of 2004 results	€ 25,000	-	-
Massimo Cristofori	Director (6)	until approval of 2004 results	€ 25,000	-	€ 184,596
Renato Soru	Chairman & CEO (7)	resigned on 23/9/04	€ 240,000	-	-
Board of Statutory Auditors					
Aldo Pavan	Chairman (4)	until approval of 2005 results	€ 62,000	-	-
Piero Maccioni	Statutory Auditor (4)	until approval of 2005 results	€ 41,300	-	-
Massimo Giaconia	Statutory Auditor (4)	until approval of 2005 results	€ 41,300	-	-
Andrea Zini	Deputy Auditor (4)	until approval of 2005 results	-	-	-
Rita Casu	Deputy Auditor (4)	until approval of 2005 results	-	-	-

(1) Chairman since 23 September 2004
(2) Appointed on 6 May 2004 - CEO since 13 May 2004
(3) Appointed on 30 April 2002
(4) Appointed on 29 April 2003
(5) Appointed on 27 October 2003
(6) Appointed on 6 May 2004
(7) Chairman since 30 June 1999 and CEO from 21 July 1999 until his resignation was submitted on 23 September 2004

CASH FLOW STATEMENT

	31.12.2004	31.12.2003
A) Net debt at the end of the previous year	**(28,102)**	**(29,580)**
Net (loss) for the year	(489,778)	(114,535)
Depreciation, amortisation and write-downs	32,417	31,650
Net change in provisions for risks and future liabilities	(3,232)	(31,265)
Net change in staff severance fund	1,230	1,281
Write-downs on long-term investments	468,867	-
Change in net working capital, of which:	**24,218**	**(39,357)**
- change in receivables	(5,486)	(30,563)
- change in inventories	1,258	(1,164)
- change in accrued income and deferred charges	(7,899)	(3,530)
- change in payables	32,724	(2,539)
- change in accrued liabilities and deferred income	3,621	(1,561)
B) Cash flows from operations	**33,722**	**(152,226)**
Net changes in non-current assets		
- tangible assets	(18,512)	(35,391)
- intangible assets	(30,831)	(14,293)
- long-term investments	2,453	82,293
C) Cash flows from investments	**(46,890)**	**(32,609)**
Change in financial payables	(956)	19,486
Other medium-/long-term liabilities	-	-
Other medium-/long-term assets	6,157	71,930
Changes in shareholders' equity	60,882	29,679
D) Cash flows from financing operations	**66,083**	**121,095**
E) Cash flows for the year (B + C + D)	**52,915**	**1,478**
F) Net debt at year end (A - E)	**24,813**	**(28,102)**
Cash and cash equivalents and due from banks	48,926	3,718
Short-term investments	-	-
Short-term bank debt	(24,113)	(31,820)
Total	**(24,813)**	**(28,102)**

For the Board of Directors

The Chairman

Vittorio Serafino

REPORTS

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
www.deloitte.it

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 2004. 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 us on 16 April 2004.

3. In our opinion, the financial statements present fairly the financial position of Tiscali S.p.A. as of 31 December 2004, 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) Tiscali S.p.A. is the guarantor of bonds issued by its subsidiary Tiscali Finance S.A., incorporated in Luxembourg, for a total amount of Euro 459.5 million, of which Euro 250 million falls due in July 2005 and Euro 209.5 million falls due in September 2006.

      The Board of Directors of Tiscali S.p.A. have refined and started a business plan whose guidelines for the period 2005 to 2007 are represented by the development of a strategy for selective unbundling, a growth in ADSL services and a focus of business in some principal European countries. In the definition and realization of this business plan, which takes into account the necessity of the Groups financing, the Directors foresee that:

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Verona Vicenza

Sede Legale: Via Tortona, 25 - 20144 Milano
Capitale Sociale: sottoscritto e versato Euro 10.327.590,00 - deliberato Euro 10.850.000,00
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560166 - R.E.A. Milano n. 1720239

Member of
Deloitte Touche Tohmatsu

- the financial resources available to the Tiscali Group, for a good part originating from the disposal program in the course of realization and which the disposal of the French subsidiary Liberty Surf Group represents the most significant component, will be sufficient to assure the reimbursement of the bond expiring on July 2005 (for Euro 250 million);

- other financial resources deriving from initiatives on the capital markets to guarantee the coverage of the convertible bond expiring in 2006 and at the same time continue to support the forecast for growth and investment, in particular in the Group's main sector represented by broadband access.

In such context, the achievement of the forecasted objectives of the recently approved cash and business plan for 2005 – 2007 (therein including the execution, in accordance with the compatible time frame of the plan itself, of the disposal contract of the French subsidiary, recently entered into and subject to in particular, among the other conditions, the approval of the French Antitrust Authorities) represents an essential condition in assuring the achievement of financial stability of the Tiscali Group and, as a consequence, to guarantee the Group's capacity in front of its commitments connected to the expiry of the bond in the near future, and also to sustain the growth in the market and identified strategic products.

In the case that the timing of the execution of the disposal contract of the French subsidiary should go beyond the expected date for the reimbursement of the bond expiring July 2005, the Directors believe it is possible to obtain the necessary financial resources by way of short term bank financing of a temporary nature, for which negotiations have started but to date the results cannot be anticipated. The Directors, also on the basis of a legal opinion, believe that in any case there are no conditions to prevent the execution of the above mentioned disposal contract in time for the reimbursement of the bond expiring on July 2005.

b) The profit and loss account for the year ended 2004 has been affected by the recording of a provision against investments in subsidiaries for Euro 468.8 million and a deferred tax asset for Euro 45 million. The explanation and the manner in which the amounts were determined and recorded in the balance sheet and profit and loss account is included in the explanatory notes.

DELOITTE & TOUCHE S.p.A.

Fabrizio Fagnola
Partner

Milan, 12 April 2005

This report has been translated into the English language solely for the convenience of international readers.

Deloitte.

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: +39 02 83322111
Fax: +39 02 83322112
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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 2004. 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 us on 16 April 2004.

3. In our opinion, the Tiscali Group's consolidated financial statements present fairly the financial position of the Tiscali Group as of 31 December 2004, 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 Board of Directors of Tiscali S.p.A. have refined and started a business plan whose guidelines for the period 2005 to 2007 are represented by the development of a strategy for selective unbundling, a growth in ADSL services and a focus of business in some principal European countries. In the definition and realization of this business plan, which takes into account the necessity of the Groups financing, the Directors foresee that:

- the financial resources available to the Tiscali Group, for a good part originating from the disposal program in the course of realization and which the disposal of the French subsidiary Liberty Surf Group represents the most significant component, will be sufficient to assure the reimbursement of the bond expiring on July 2005 (for Euro 250 million);

- other financial resources deriving from initiatives on the capital markets to guarantee the coverage of the convertible bond expiring in 2006 and at the same time continue to support the forecast for growth and investment, in particular in the Group's main sector represented by broadband access.

In such context, the achievement of the forecasted objectives of the recently approved cash and business plan for 2005 – 2007 (therein including the execution, in accordance with the compatible time frame of the plan itself, of the disposal contract of the French subsidiary, recently entered into and subject to in particular, among the other conditions, the approval of the French Antitrust Authorities) represents an essential condition in assuring the achievement of financial stability of the Tiscali Group and, as a consequence, to guarantee the Group's capacity in front of its commitments connected to the expiry of the bond in the near future, and also to sustain growth in the market and identified strategic products .

In the case that the timing of the execution of the disposal contract of the French subsidiary should go beyond the expected date for the reimbursement of the bond expiring July 2005, the Directors believe it is possible to obtain the necessary financial resources by way of short term bank financing of a temporary nature, for which negotiations have started but to date the results cannot be anticipated. The Directors, also on the basis of a legal opinion, believe that in any case there are no conditions to prevent the execution of the above mentioned disposal contract in time for the reimbursement of the bond expiring on July 2005.

b) The profit and loss account for the year has benefited from the recording of a deferred tax asset relating to tax losses carried forward for Euro 110.7 million, of which Euro 45 million relate to tax savings of the parent Tiscali S.p.A. to be realized during 2005 as a consequence of the transfer of business described in the report on operations which will generate taxable profits that will be reduced by way of utilization of tax losses brought forward, and for Euro 63.2 million tax relating to savings expected by way of utilization of tax losses which can be carried forward without any expiry date on profits expected by the UK subsidiaries in the future in conformity with the approved business plan.

c) As disclosed in the report on operations, the Tiscali Group, as of 31 December 2004, 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. The Directors, based on their legal advisors' opinion, believe these claims are unfounded. In addition, a tax dispute, for a total amount of Euro 40 million, exists with reference to World Online International NV, regarding the lack of payment of withholding taxes on emoluments that should have been paid in the year 2000 to the former Managing Director. The Tiscali Group, on the basis of its fiscal advisors' opinion, believes this claim to be unfounded. Therefore, due to the lack of elements to be able to quantify or consider probable the above mentioned potential liabilities no provisions have been recorded in the balance sheet.

DELOITTE & TOUCHE S.p.A.

Fabrizio Fagnola
Partner

Milan, 12 April 2005

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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 2004, 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 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 article 114, paragraph 2 of Legislative Decree 58/98, by collecting data from the various managers 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 co-ordinator and analysing the results of the work carried out by the external auditors.
- We have held meetings with the external auditors, pursuant to article 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.
- In addition to work carried out separately, the auditors attended 14 meetings of the Board of Auditors and all 13 meetings of the Board of Directors, in accordance with article 149, paragraph 2 of Legislative Decree 58/98.

- The most significant intra-group transactions of which we have been informed pursuant to article 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 are described in detail in the report on operations, which should be consulted for information on the balance sheet and profit and loss items.
- There were no complaints pursuant to article 2408 of the Italian civil code or from third parties.
- With respect 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.
- In 2004 Tiscali SpA requested Deloitte & Touche SpA to carry out a number of assignments other than the audit of the annual report and accounts and the consolidated accounts, specifically a preliminary study on the adoption of the IAS accounting standards and the opinions of suitability issued pursuant to article 2441 of the Italian civil code. The total fee charged to Tiscali by the external auditors in 2004 was EUR 2,425,000 (excluding VAT).
- During the year, the Board of Auditors was not required to issue any opinions in accordance with the law. Opinions issued by external auditors were as follows:

Date	Opinion
15 April 2004	Report by the external auditors pursuant to article 158, paragraph 1 of Legislative Decree 58 of 24 February 1998, and article 2441 of the Italian civil code on the share issue price in respect of a capital increase without option rights. (VIA NET. WORKS UK LIMITED)
4 June 2004	Report by the external auditors pursuant to article 158, paragraph 1 of Legislative Decree 58 of 24 February 1998, and article 2441 of the Italian civil code on the share issue price in respect of a capital increase without option rights (GRIMALDI).
6 June 2004	Report by the external auditors stating whether the share issue price in respect of a capital increase without option rights pursuant to article 2441, paragraph 4, section 2 of the Italian civil code matched the shares' market value (Société Générale).

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.

Lastly, please note that the mandates of the external auditors, Deloitte & Touche SpA, and the Board of Directors expire with the approval of the current accounts; you will therefore be invited to vote on this subject. With regard to the appointment of the independent auditors for the audit of the annual accounts and report and the consolidated report, please refer to our opinion prepared in this regard, pursuant to article 159, paragraph 1 of Legislative Decree 58/98.

Cagliari, 15 April 2005

THE BOARD OF AUDITORS

ALDO PAVAN

MASSIMO GIACONIA

PIERO MACCIONI

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